

ENTERPRISE AND NEW TOWNS (SCOTLAND) ACT 1990

**Accounts**, of Highlands and Islands Enterprise prepared pursuant to section 30(1) of the Enterprise and New Towns (Scotland) Act 1990, for the year ended 31 March 2018 together with the independent auditor's report to the members of Highlands and Islands Enterprise, the Scottish Parliament and the Auditor General for Scotland.

# **Highlands and Islands Enterprise Annual Report and Accounts 2017-18**

Laid before the Scottish Parliament under section 30(1) of the Enterprise and New Towns (Scotland) Act 1990

August 2018

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# Performance Report

## Overview

### History and statutory background

Highlands and Islands Enterprise is an executive Non-Departmental Public Body of the Scottish Government, acting as a public agency with a statutory duty to undertake economic development within the Highlands and Islands of Scotland.

Highlands and Islands Enterprise (HIE) was established in 1991 in accordance with the provisions of the Enterprise and New Towns (Scotland) Act 1990. The legislation defines Highlands and Islands Enterprise key functions as

- Preparing, concerting, promoting, assisting and undertaking measures for the economic and social development of the Highlands and Islands
- Enhancing skills and capacities relevant to employment in the Highlands and Islands
- Furthering Improvement of the environment of the Highlands and Islands

Highlands and Islands Enterprise duties are as determined by Scottish Ministers under Section 24 of the Act. A range of general and specific powers are set out in full in section 8 of the Act.

### Strategic aims

The third 'Scotland's Economic Strategy' was unveiled in March 2015. The strategy focuses actions on the four strategic priorities which aim to increase competitiveness and tackle inequality. These four priorities are investing in our people and our infrastructure in a sustainable way; fostering a culture of innovation and research and development; promoting and creating opportunity through a fair and inclusive jobs market and regional cohesion; and promoting Scotland on the international stage to boost our trade and investment, influence and networks. For further information on Scotland's Economic Strategy please see [www.hie.co.uk/about-hie/what-we-do.html](http://www.hie.co.uk/about-hie/what-we-do.html)

### Business Model and Environment

As an economic development agency, Highlands and Islands Enterprise overall objective is to make a significant contribution to achieving the Scottish Government's aim to increase competitiveness and tackle inequality in the Highlands and Islands. Highlands and Islands Enterprise seeks to identify and exploit opportunities for the Highlands and Islands economic growth by supporting local companies to compete, helping to build globally competitive sectors, attracting new investment and creating a world-class business environment.

Highlands and Islands Enterprise's objectives and key targets are agreed within its business planning process. Highlands and Islands Enterprise operates with its own independent Board reporting to the Cabinet Secretary for Rural Economy within the Scottish Government.

Highlands and Islands Enterprise works closely with public sector partners, in particular Scottish Enterprise, Skills Development Scotland, the Scottish Funding Council, Visit Scotland, Local Authorities and Business Gateway, to secure the alignment of strategies and resources across the public sector behind growth opportunities.

Highlands and Islands Enterprise pursues this nationally with Scottish Government and other partners and at a regional/local level via City and Regional Growth Deals, and Community Planning Partnerships.

Some Highlands and Islands Enterprise activities operate across all of Scotland, including the Highlands and Islands Enterprise area, these being:

- Community Broadband Scotland
- the Scottish Land Fund

Highlands and Islands Enterprise works with partners in the public and private sectors to identify and exploit the best opportunities to deliver a significant, lasting effect on the Highlands and Islands economy and increase Highlands and Islands international competitiveness. Under the guidance of the Chief Executive and the Leadership Team, operations are delivered via the following Directorates:

Business and Sector Development leads on our engagement with business, through an account management approach to key businesses, whilst providing a range of wider business support to the wider business community. Our approach encourages all aspects of business growth, supports innovation, entrepreneurship, international trade, inward investment, management and leadership, financial support, provides specialist advice and coordinates with appropriate national support.

Regional Development is a diverse directorate with responsibility for property and infrastructure, research and economics, marketing and communications, strategy, planning, performance measurement and strategic partnerships. The directorate leads on a range of major developments and collaboration projects within the Highlands and Islands including the Inverness Campus, Next Generation Broadband, UHI and university partnering and the Highlands and Islands Science Skills Academy

Strengthening Communities is focused on empowering communities to be at the forefront of their own development with an emphasis on our most remote, rural and island areas. Key themes are supporting communities to acquire and develop community assets, encouraging the growth of the social economy and the social enterprise model - which is critical to the economic and social development of the region - and taking a place based approach to local development which includes the organisation's contribution to developing culture and heritage, including Gaelic.

Supporting those operational directorates is the Finance and Corporate Services directorate, with responsibility for strategic financial management, financial services, procurement, legal, the facilities management function and provides and delivers health and safety and environmental management. The HR team work in collaboration with the business to deliver HIE's strategic priorities and helps translate the organisation's requirements into a people agenda that makes a positive impact on the all HIE Staff. The Business Improvement and Internal Audit team support development and delivery of the organisations business improvement strategy and assurance activity - ensuring innovation, high standards of corporate governance and value for money are at the heart

of the business and its decision-making process.

## Principal activities

As the Scottish Government's economic and community development agency for north and west Scotland, HIE's purpose is to generate sustainable economic growth across the Highlands and Islands. Our vision is for the Highlands and Islands to be a highly successful and competitive region in which increasing numbers of people choose to live, work, study and invest.

The following priorities reflect 2017-18 challenges and opportunities and provide the framework for HIE's activities across the region:

- Inclusive Growth
- Investment
- Innovation
- Internationalisation

Reflecting the changing environment revised priorities have been developed for 2018-19. These are

- Accelerating business growth
- Strengthening communities
- Supporting growth sectors
- Developing regional attractiveness

Details of the full range of HIE's activities are included in our Operating Plan.

[www.hie.co.uk/operating-plan](http://www.hie.co.uk/operating-plan)

## Chief Executive Statement

I am pleased to report strong performance against our key measures in 2017-18, despite ongoing challenges affecting oil and gas sector of the economy.

HIE approved £50.1m grant-in-aid to support 612 new projects across the region with a total cost of £175.2m. In the short to medium term, HIE's investments will accelerate the growth of client businesses and social enterprises across the region. Longer term impacts will be generated through our ongoing investment in infrastructure.

Among other highlights of a successful year, HIE's activities supported the creation or retention of 981 jobs, delivering an average annual salary of more than £26,000. The number of jobs supported in fragile areas was 139 (14%), roughly aligned with population, but greater than the proportion of private sector employment, currently around 10%.

International activity also increased with support to 367 businesses provided by HIE and our colleagues in Scottish Development International (SDI).

Performance in the social economy was strong, with increased levels of client investment, although turnover generated by community-owned assets was slightly lower than last year, and we exceeded our target to deliver new and improved income-generating assets across the region. Since its launch in April 2016, the current Scottish Land Fund has invested £15.4m in 70 communities, half of them in the HIE area.

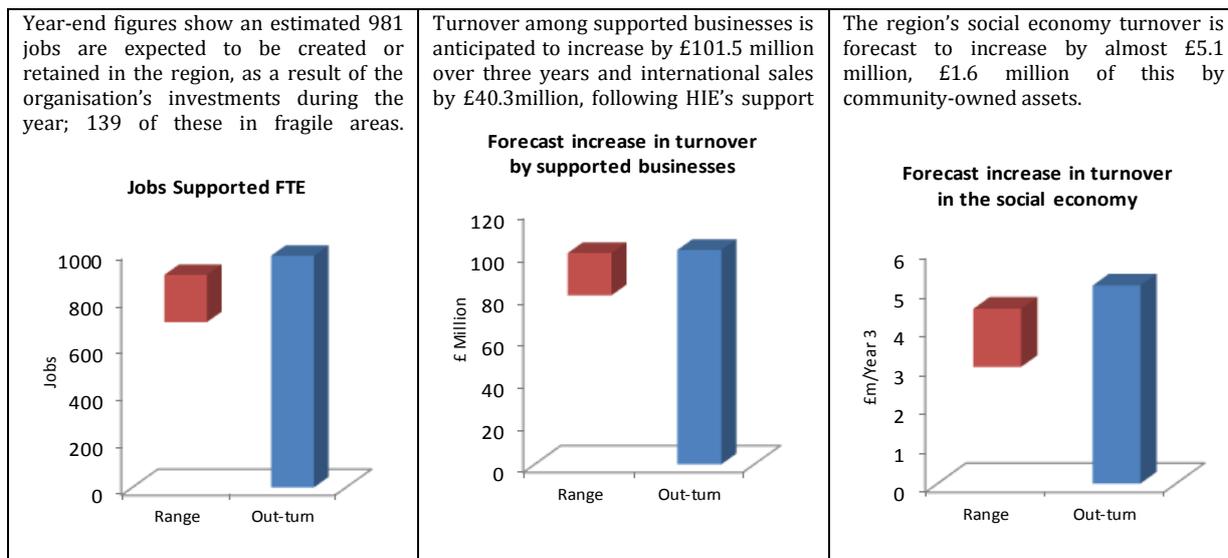
2017-18 highlights include:

- £23.7m approved to support the growth of businesses and social enterprises, the highest level for three years;
- 367 businesses supported to increase international activity;
- HIE's investment expected to assist our clients to generate an increase in turnover of £101m including international sales of over £40m;
- 6 inward investment projects attracted to the region;
- 981 full time equivalent jobs created or safeguarded, including 139 in fragile areas;
- 12% of our business and social enterprise investment was in fragile areas, higher than the proportion of private sector employment;
- With HIE's support, our account managed communities levered £5.5m from the Big Lottery and Scottish Government's Regeneration Capital Fund;
- Around 300 businesses were supported through HIE's *Innovate your Business* programme;
- £16m funding was secured for the Northern Innovation Hub through the Inverness and Highland City-Region Deal, European Regional Development Fund and HIE;
- The number of premises with access to superfast broadband through the Digital Scotland Superfast Broadband project rose to 179,223;
- HIE's leadership role in the collaborative development of Inverness Campus was endorsed by independent evaluation;
- Orkney Research and Innovation Campus LLP, a joint venture between HIE and Orkney Islands Council, was formally established and construction began;
- HIE utilised all available funding in 2017-18, with almost £98m spent, and financial targets met.

A key focus for HIE in the coming year will be to inform and deliver the collaborative actions agreed by the new Enterprise and Skills Strategic Board to improve how agencies work together. We will support the development of the Strategic Board's ambitions into a 5-year Strategic Plan and ensure our own planning process is fully aligned with the Strategic Board and the other Enterprise and Skills agencies. We will also build on the work commenced by the National Council of Rural Advisers on developing the rural economy.

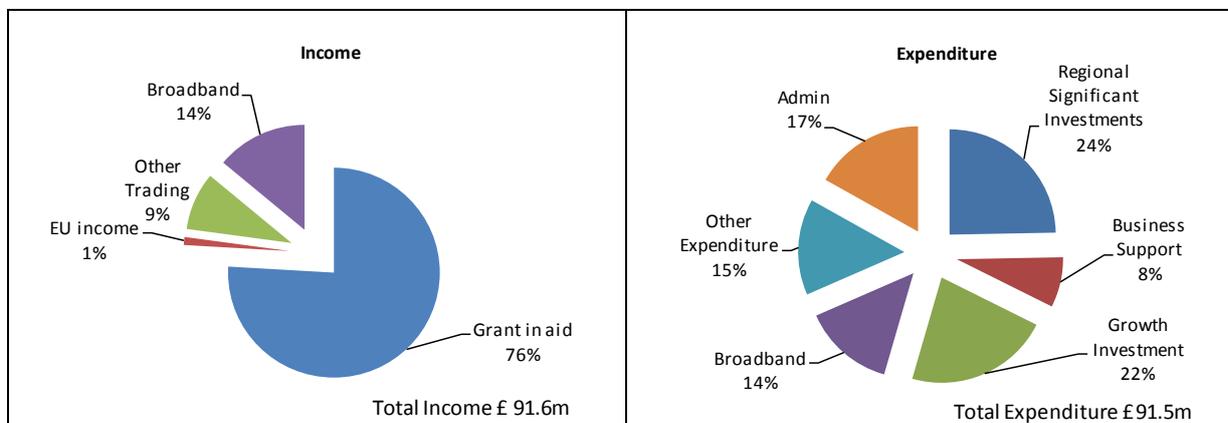
## Performance Summary

Highlands and Islands Enterprise (HIE) has delivered another successful year of investment and job creation, meeting all targets. Some key highlights included:



<p>A number of major infrastructure projects moved forward, including the start of construction on second life sciences building on the Inverness Campus, extension of the Wind turbine manufacturing facility at Machrihanish and completion of additional works at the pharmaceutical plant at Breasclete on the west coast of Lewis.</p>	<p>In collaboration with Orkney Islands Council we are taking forward ambitious plans to establish Orkney Research and Innovation Campus as a joint venture. Based in Stromness, this initiative will build on Orkney's global reputation as a leading centre for renewable energy research and development.</p>	<p>Digital connectivity continued to improve for businesses and households across the region, with the number of premises with access through the HIE-led Digital Scotland Superfast Broadband project reaching 179,223</p>
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Highlands and Islands Enterprise income by sources and expenditure by category per note 2



## Principal risks and uncertainties

Highlands and Islands Enterprise has a Risk Management Policy and operates an internal control assessment framework to complement its risk management and internal audit arrangements. The framework requires Leadership Team members to carry out an annual review of the internal controls within the business units for which they are accountable based on a detailed internal control checklist. Risks are classified as strategic and tactical and both likelihood and impact are assessed on a consistent basis. Risk registers are maintained at project, business unit and corporate level, with the Corporate Risk Register being reviewed on a regular basis by the Highlands and Islands Enterprise Board and Risk and Assurance Committee.

As with every part of the country, the Highlands and Islands has experienced the effects of difficult economic conditions. However, a number of key economic indicators suggest that the region has weathered the difficulties relatively well. This together with regional opportunities, the region's attractiveness as a location and the significant investment in the region's infrastructure provide a good foundation on which to build further.

Key risks for Highlands and Islands Enterprise as an organisation include: -

- Economic and fiscal uncertainty, including Brexit, and resultant concerns about issues such as labour supply impacts negatively on business decisions, constraining growth across the Highlands and Islands region
- The nature of the business base in the Highlands and Islands and inherent challenges faced by communities and businesses across our region require us to focus our interventions to ensure they support increased productivity and maximise our support

- for inclusive and sustainable growth.
- A successful Highlands and Islands requires the provision of appropriate enabling infrastructure and connectivity. Our activity needs to ensure there continues to be a strategic and co-ordinated approach to this ensuring we realise the benefits from our investments.
  - It is essential that the specific sectoral challenges and opportunities of our region are recognised and that our approach must be appropriately tailored to maximise the opportunities.
  - Strategic Board – Following the Enterprise and Skills review and the creation of the Strategic board HIE is working closely with Scottish Government and partners on implementation activity. to ensure outcomes that best meet the future needs of the Highlands and Islands.
  - Ensuring that we understand and put in place appropriate arrangements to respond to emerging issues such as General Data Protection Regulations and Cyber security.

All internal and external risks in the Corporate Risk Register are actively managed at the appropriate level in the organisation.

### **Going Concern**

The financial statements for the year ended 31 March 2018 show net liability position of £1.6m (Group £0.8m net assets). The position of net liabilities has arisen due to the HIE pension fund deficit. Net current liabilities will be funded by the Scottish Government as they arise. The Scottish Government have provided a resource budget for 2018/19 of £71.6 million, therefore, the financial statements have been prepared on a going concern basis.

## Performance Analysis

### Performance Measures (Description)

To measure how our support meets our objectives by inclusive growth, internationalisation, innovation and investment. HIE applies a comprehensive framework of measures. We use performance measures to help monitor the contribution we make in terms of our economic and social impact on the longer-term goals of Scotland's Economic Strategy and HIE's ambitions as set out in our operating plan.

Further details of how HIE measures performance can be found in our operating plan, available online at [www.hie.co.uk/operatingplan](http://www.hie.co.uk/operatingplan)

### Year-end performance

Performance against HIE's key performance measures was again strong in 2017-18, despite ongoing challenges affecting some sectors. All out-turns were within or above the agreed ranges.

A strong out-turn was recorded against our Average Salary measure, supporting our ambitions to increase wage levels across the region. The proportion of jobs supported in fragile areas was 14%.

Performance in the social economy was strong with increased levels of client investment. Turnover generated by community-owned assets was down slightly. However, we exceeded our target to deliver new and improved income-generating assets across the region.

### Key out-turns

Annual measures	Range	Out-turn
Forecast increase in turnover by supported businesses (£m/year 3)	80-100	101.5
Forecast increase in international sales by supported businesses (£m/year 3)	30-40	40.3
Jobs supported (created/retained) FTE	700-900	981
- of which in fragile areas	125-175	139
Average salary from jobs supported (£)	25,000	26,120
Forecast increase in turnover in the social economy (£m/year 3)	3.0-4.5	5.1
- of which generated by community-owned assets (£m/year 3)	1.5-2.0	1.6
New/improved income generating assets	25-30	39

### Inclusive Growth

HIE continues to implement a strategic approach to regional development to ensure we direct our resources carefully to meet challenges and create opportunities that will benefit every part of the Highlands and Islands. We fully support the Scottish Government's commitment to respect, protect and implement human rights for everyone in Scotland, and aspire to embed equality, dignity and respect in everything we do.

Greater regional leadership, influence and partnership working is vital to ensure that services and infrastructure are available to sustain a growing and diverse population. Following the conclusion of a research project to understand the barriers to housing development, we shared the report, '[Stimulating Housing Development in the Highlands and Islands](#)', widely with stakeholders and are exploring shared solutions. We continue to influence increased access to affordable housing in areas that most affect our business and community clients.

Through our work, including with community planning partnerships, we are seeking a more holistic, place-based and people-centred approach to economic development and regeneration and are engaged in developing locality plans.

We have developed options to refine our approach to community-led development. These include engaging partners in the delivery of early stage capacity building and development support, the procurement of a framework of specialist support, and targeted application of local development officer support.

The 2017 Year of History, Heritage and Archaeology enabled HIE to support a new digital adoption scheme to support business engagement focusing on commercialisation of rural communities' cultural heritage assets.

A total of £445k was committed to provide the cultural infrastructure required to enable remote and rural communities to participate in creative activities and skills development.

£75k was approved to help Regional Screen Scotland enable remote and rural communities to access activities through the Screen Machine (mobile cinema), and to support organisations to develop cinema facilities in remote locations.

HIE continues to work with partners to maximise the social and economic contribution of Gaelic language and culture. A further Language Innovation Investment was approved to support Ionad Naomh Mòluag (Lismore Gaelic Heritage Centre) to employ a Gaelic Access Officer. Fèisean nan Gàidheal's new Fèis TV service, is now operational, offering a worldwide audience access to high quality content that showcases Gaelic culture, and music in a modern context.

£370k was approved to Fèisean nan Gàidheal (FnG) 2018-21 Traditional Youth Arts programme to develop Fèisean related place based activities, enhance skills and creative talent, and support cultural tourism.

At 31 March 2018, we were actively account managing 154 social enterprises, including 39 whole communities.

A mid-term evaluation of our INTERREG-supported Vital Spark programme in Argyll concluded that it had been successful in raising awareness of the potential of social enterprise as a business model. Eighteen new social enterprises have been established across Dunoon, Rothesay and Campbeltown; eight are actively trading, five are test-trading and five have secured premises. The report also highlighted the potential transferability of the Vital Spark model to other areas.

Since its launch in April 2016, the current Scottish Land Fund, has invested £15.4m in community asset projects. 70 communities have been assisted to acquire assets, half of which were in the HIE area. Our contract to deliver the fund was extended to March 2019.

In September, we marked the 20<sup>th</sup> anniversary of HIE's Community Land Unit (now our Community Assets Team) by hosting a successful National Strengthening Communities Conference in Aviemore.

we supported 11 community projects to take forward early development of local energy systems projects through our Technical Advice Framework.

Following a review of Community Broadband Scotland in 2017, we continue to work with the Scottish Government's R100 team to help ensure that all premises are able to access next generation broadband by 2021. We are continuing to help communities and social enterprises to capitalise on digital infrastructure.

Our ScotGrad programme continues to deliver the twin objectives of providing opportunities for young people, whilst at the same time contributing to business growth. In 2017-18, the programme delivered 50 graduate placements, 18 student placements and one knowledge exchange placement.

## Investment

2017-18 saw an increase in both the number of businesses and social enterprises supported by HIE funding and also the proportion of our investment going into private and third sector organisations. We attracted six inward investors to the region, and continue to have a strong pipeline of activity.

Liberty British Aluminium in Fort William is a key strategic project. A comprehensive 'Team Scotland' approach has been used to ensure the successful delivery of the new wheels factory, creating hundreds of new jobs and growing the Lochaber economy.

The majority of HIE's financial investment continues to be in the form of grant, however six loans totalling £2.5m were approved.

## Energy

HIE engaged closely in the drafting of the Scottish Government energy strategy and will play a key role in many aspects of its delivery.

EMEC, the world's only grid-connected, independently accredited test facility for full scale wave and tidal technologies, is growing its hydrogen ambitions with a storage facility at its tidal site. Demonstration of hydrogen production to store excess marine electricity is an important step towards proving that alternatives to grid export can be viable.

In collaboration with Orkney Islands Council we are taking forward ambitious plans to establish Orkney Research and Innovation Campus as a joint venture. Based in Stromness, this initiative will build on Orkney's global reputation as a leading centre for renewable energy research and development.

Interest in floating wind production remains strong, and completion of the Statoil project in the Buchan Deep has led to renewed confidence in this technology.

Construction of the Beatrice Offshore wind farm in the Moray Firth continues apace. Invergordon and Nigg Energy Park have secured high value contracts to support its construction and build out, while Wick is attracting over £10m of private investment as the Operation and Maintenance port of choice and Buckie has secured contingency port status.

HIE continues to work with stakeholders to build the case for establishing a multi-user, ultra-deep-water quay at Dales Voe, Shetland, driven by the decommissioning market and able to support future oil and gas and floating wind construction.

At 31 March 2018, HIE subsidiary Wave Energy Scotland (WES) had awarded £28m in contracts to 62 projects, involving 171 organisations across industry and academia from 11 countries. Its innovative approach to technology development continues to attract global interest, and success will be measured in commercially attractive technologies gaining interest and investment from Original Equipment Manufacturers.

With £159k of HIE investment, Kishorn Port Ltd has completed Phase 1 of upgrade works to its dry dock. The dock is one of the largest in Western Europe allowing it to accommodate some of the largest floating structures that have been fabricated for the North Sea.

## Life sciences

NEXUS, our life sciences and technology accelerator, located in Aurora House, Inverness Campus, and funded through the Inverness and Highland City Region deal, was formally opened on 27 March. NEXUS offers office and hot desking space to life sciences and technology businesses looking to establish themselves in the Highlands.

In collaboration with Scottish Government and NHS Highland, we launched a Small Business Research Initiative for innovative healthcare solutions for inflammatory bowel disease. Two companies have progressed to Phase two, and both are taking space in NEXUS.

In partnership with SRUC and SDI we are developing a new Scottish animal health proposition, including a focus on Inverness Campus where SRUC and UHI have specific expertise.

European Marine Science Park (EMSP) in Oban is the chosen location for the proposed Marine BioProcessing Centre, a key project in the Industrial BioTechnology Innovation Centre's phase two business plan.

A report commissioned by HIE with Marine Scotland Science, Marine Scotland Fisheries and the Scottish Seaweed Industry Association, concluded that there is double the forecast volume of harvestable seaweed at four surveyed sites available to industry through Marine Scotland.

HIE, with the Satellite Applications Catapult, developed two field trial projects and piloted delivery of innovative methods of

healthcare in diabetes and bowel disease. This led to SCOTCAP, a multi-partner collaboration and the first Innovation Partnership healthcare project in Scotland.

### **Food and drink**

HIE/Marine Scotland research on 'The Value of Aquaculture to Scotland', published in June 2017, articulates the opportunities and challenges relating to the sector's growth potential to 2030. The sector supports 12,000 FTEs, with earnings of £314m and GVA of £620m. Socio-economic impacts are particularly concentrated in remote and rural areas.

Our activities this year included realising the objectives of the £1m HIE-funded Accelerating Aquaculture Innovation programme to increase innovation, productivity and competitiveness in indigenous supply chain SMEs. We commissioned research on skills; supported the industry to develop a sustainability template; and delivered Scotland's first dedicated pavilion at Aqua Nor 2017 in Norway.

HIE took part in developing the national food and drink strategy 'Ambition 2030', launched in March 2017, which aims to support the industry ambition to double the value of the sector to £30 billion by 2030.

HIE supported Scotland Food and Drink to appoint a Highlands and Islands Business Development Manager whose objective is to connect all producers with the national food and drink ambition.

Through the Inverness and Highland City-Region Deal Northern Innovation Hub, we are developing proposals for an innovation technology centre which will attract ambitious and talented food and drink technologists, scientists and entrepreneurs to the region. We are equally ambitious to support indigenous businesses to commercialise new products and transform traditional production processes.

### **Creative industries**

The XpoNorth creative industries showcase in Inverness, funded by HIE and the European Regional Development Fund, attracted a record 2,500 delegates in June 2017. The event produced 34 seminars with international speakers, and features over 80 acts, a diverse film screening programme, craft exhibitions, a gaming and technology playground and trade areas.

We enabled a variety of creative businesses to increase their use of technology, including support for a building offering access to editing equipment and a grant to develop software to improve the production process of a children's book publisher.

HIE worked as a partner in the development of the new screen unit being established within Creative Scotland to enhance the co-ordination of support for the sector across Scotland.

### **Tourism**

Our focus has been on key sub-sectors such as marine tourism, adventure tourism and increasing the level of digital tourism skills and innovation. We worked with partners and stakeholders to ensure our approach was aligned with the national Tourism Scotland 2020 strategy, whilst reflecting the unique needs and opportunities of our region.

The success of the North Coast 500 circular tourist route continues with a study reporting an economic value to the region of £9m in 2016 and an opportunity for the creation of around 200 jobs.

Businesses across the Highlands and Islands continued to benefit from Digital Tourism Scotland. A total of 504 tourism businesses took part in a range of workshops and events during 2017-18 and over 80 per cent of participants confirmed they were better equipped to tackle the digital needs and opportunities facing their business.

Go Global supported trade missions to Germany and the USA and expertise has been delivered in collaboration with VisitScotland and SDI. Developing Your International Tourism Markets courses were provided in conjunction with Golf Highland and Shetland Tourism Association. HIE and SDI supported Sail Scotland to attend a Marine Tourism conference in Sweden which has developed a twinning agreement and will strengthen international links.

We continue to engage with growth companies to create and sustain tourism employment whilst also maintaining a strong focus on our most fragile areas. A total of 89 projects supported tourism growth across the region, contributing to 156.75 jobs (FTE) of which 23% were in fragile areas. Social Enterprises delivered 28 projects totalling £983,353 of investment.

### **Finance and business services**

HIE is working with SDI to identify small to mid-range global business service companies which fit well with our regional offering. We jointly sponsored Contact Centre Europe week in Glasgow in March 2018, attended by over 200 senior executives, and continue to follow up leads from this event.

We continue to engage with existing investors to seek further opportunities. Scottish-based contact centre operator Kura continued to grow its regional presence, recruiting to fill Strathcona House on Enterprise Park, Forres.

We are working with a Global Business Services company to develop a homeworking pilot project with potential to roll out across some of the region's more remote and fragile communities.

### **Technology and advanced engineering**

A detailed review by ScotlandIS highlighted the importance of the technology sector to the regional economy in employing over 5500 people and generating £212m GVA. HIE will work with partners to take forward recommendations such as increasing the pipeline of skilled resource and opportunities to develop tech meet-up groups.

Proposals by Liberty British Aluminium to establish an alloy wheel factory adjacent to their Fort William smelter continue to progress. Planning permission was awarded by Highland Council in January 2018 and a public-sector partnership co-chaired by HIE and Highland Council has met monthly to ensure wider support and infrastructure efforts are aligned with the needs of the project. HIE appointed a programme manager to co-ordinate our input and reporting to five work streams, and is the lead partner for Energy and for Skills and Talent Attraction, and a key contributor to the Transport, Master planning and Housing work streams.

We helped fund the Highlands and Islands Forestry Industry Cluster Group (HIFIG), seeking to facilitate development, encourage networking and cooperation, increase innovation, identify opportunities for knowledge transfer, and provide strategic advice to HIE.

In conjunction with SMAS and Interface, client businesses and account managers visited Innovate UK's high value manufacturing centres and Scottish Innovation Centres, with 18 businesses supported to undertake learning journeys.

Part of the Inverness and Highland City Region Deal-funded Northern Innovation hub, the Highland Coding Academy will be launched in 2018.

Through our involvement in the Digital Scotland Business Excellence Partnership (DSBEP) skills group, initiatives are under way to increase access to computer science and digital skills training at all levels from school to higher education. HIE is represented on the Gender workstream of the Tackling the Technology Gender Gap Together initiative, which aims to address under-representation of women in the sector.

### Universities

There are currently 6,645 FTE HE students studying in the University of the Highlands and Islands (UHI) and a new strategy will see this increase to at least 7,700 by 2020. However, whilst HIE's investment in the UHI School of Health is beginning to pay dividends, we want to see growth across a wider range of curriculum.

Thirty students will study at Glasgow School of Art in Forres over the next 18 months.

We are drafting a Campus Development strategy which will identify locational priorities and projects for HIE's support.

A project board is driving forward the priority activities of the *Oban as a University Town* initiative, focusing on the academic offer, infrastructure, commercial engagement, and communication.

HIE's investment of £4m to develop a School of Health within UHI has resulted in 14 new positions including eight principal investigators and researchers. Our funding has helped UHI leverage a further £15m from various initiatives and will result in the development of the Centre for Health Science II on Inverness Campus. This collaborative initiative between NHS Highland, UHI and HIE will place a centre of excellence in healthcare delivery with significantly enhanced clinical outcomes, alongside healthcare research and commercial activity.

### Investing in enabling infrastructure

HIE continues to use its powers to intervene in the property market through provision of industrial/office-type premises or development sites where the commercial market is unwilling or unable to do so and there is a development need

- At Machrihanish, Kintyre, HIE provided £2.8m to the cost of extending and altering facilities leased to CS Wind.
- We obtained approval for the fit-out of the last remaining part of Aurora House, the first Inverness Campus life sciences building.
- Approval has been given to construct a second advance life sciences building on Inverness Campus, within the designated Enterprise Area. The £7M project will be assisted by ERDF.
- HIE is undertaking a development of business units in partnership with HIAL at Benbecula Airport.
- Construction of a public transport bridge over the railway between Inverness Campus and Inverness Retail Park to the east, has been consented and funding approved.
- To accommodate student residences being developed by Cityheart Ltd, HIE awarded a contract for an extension of the Inverness Campus roads, completed in February 2018.
- In April 2017, HIE completed works to expand the pharmaceutical plant at Breasclate, Isle of Lewis, occupied by BASF.
- The fit-out of two office/labs at Malin House, Dunstaffnage, Oban, part of the European Marine Science Park (EMSP), was completed in November 2017.
- HIE is undertaking a joint development with Orkney Islands Council to create the Orkney Research and Innovation Campus.
- A contract was awarded for site servicing for smaller commercial developments at Glenshellach Industrial Estate, Oban.
- HIE staff are liaising with Cairngorm Mountain Ltd on proposals to develop an artificial ski slope and undertake alterations to the Ptarmigan top station building with a £4m loan from HIE. Staff also worked with CML on completing a clear-up of disused infrastructure. A contract for an independent review of uplift at Cairngorm was awarded in February 2018.

### Rental income and property sales

HIE's commercial property portfolio comprises 54 industrial and 45 office premises, over 100 development plots and 15 other properties. These are let on commercial terms and raise £3.3m in gross rent annually.

HIE continues to dispose of properties and recycle proceeds into development projects. In 2017-18, sales of £957,070 were achieved.

### Innovation

HIE's innovation service is designed to simplify access for businesses looking for support. It is connected to the wider UK innovation landscape, including Innovation Centres, Innovate UK and the Catapults. HIE has strong working relationships through co-location with Interface and SoXSA (Scottish Centre for Excellence in Satellite Applications) in An Lòchran and through the provision of hot-desk opportunities with Innovate UK. By working collaboratively across the business support system, we aim to provide a comprehensive and seamless service, enabling business leaders to bring new products and services to the market, or improve their productivity and profitability.

Our innovation service supported 323 unique businesses this year, providing 30 small business grants totalling £271,959 leveraging £550,557 of private sector funding and resulting in forecast increase in turnover of £2.3m and an employment increase of 78 FTEs. Businesses accessed one to one advice, intellectual assets advice, small business grants, clinics and group workshops.

Businesses in our region's most fragile locations can now also access support through the €16.6m Interreg Co-Innovate programme, led by InterTradelreland and delivered locally by HIE. Two senior innovation practitioners, based in Stornoway and Lochgilphead, joined HIE in May 2017, and are working with business networks, HIE and Business Gateway to engage with eligible businesses. Workshops have been delivered in Stornoway, Fort William, Tarbert, Campbeltown, Portree, Castlebay, Rothesay and Oban.

Our innovation service also delivers deeper support to account managed businesses. Increasing levels of innovation in the region will make a positive impact on productivity levels, particularly in sectors such as tourism and food and drink.

In 2017-18, we awarded R&D grants of £2,461,906, leveraging private sector investment of £2,334,443.

The Northern Innovation Hub (NIH) is a programme of innovation support covering life sciences, tourism, food and drink, and creative industries, and a strand focusing on young people and technology. It will be funded £11 million from the Inverness and Highland City-Region Deal, £3 million from ERDF and £2 million from HIE. Over the seven-year lifetime of the programme it is expected to reach 1,600 businesses across the Highland Council area. Inverness and Highland City-Region Deal funding was approved in October 2017.

The SoXSA Satellite application's Catapult project continued to help businesses to utilise satellite technologies. 53 companies in the HIE region have engaged with a particular focus on supporting the aquaculture sector.

Five companies have been successful in obtaining Innovate UK funding in the past year these were Carbon Dynamic, Pinnacle Business Solutions, AGM Batteries, EMEC, Xanthella, in Oban, A further three KTP projects were awarded and AGM batteries were successful in the Industry Strategy Challenge fund Faraday challenge fund with a £1.3 million grant.

Eighty one Highlands and Islands businesses submitted project proposals to academic institutions with the help of Interface.

### **Leadership and entrepreneurship**

We continued to drive forward HIE's Entrepreneurship Programme 2017-20, launching a new Entrepreneurial Academy in April 2017.

A successful pilot for accelerated new product or process development was delivered in 2017 and will be rolled out across the region.

HIE sponsored four businesses and one social enterprise at MIT's Entrepreneurship Development Programme (EDP) in January 2018.

The 2017 Can Do Scale Summer School was delivered in Stirling for a third year. Over 90 businesses and social enterprises attended from throughout Scotland. As part of the collaborative initiative between HIE, SFC and SE, teaching was delivered by Professor Bill Aulet, Massachusetts Institute of Technology (MIT) Sloan School of Management, and Professor Noam Wasserman, University of Southern California (USC) and equipped entrepreneurs with a systematic and rigorous methodology to grow their business.

Eight enterprises and nine individuals from the Inner Moray Firth and Caithness and Sutherland areas participated in Can do Scale 2017. Formal feedback was extremely positive.

Our Leadership programme delivered support to 238 people, 47% of whom were female leaders or potential leaders of businesses and social enterprises. The programme currently has 4 strands: Emerging Leaders; Leadership for Growth; High Impact Leaders; and Mentoring.

### **Skills for the future**

As part of the Highlands and Islands Skills Investment Plan, we have developed a talent attraction strategy and progressed dialogue with Talent Scotland to create a proposition for the region that illustrates the wide range of opportunities for sectors, education, skills and each geographical area.

We are leading on a high-level Talent Attraction Working Group, comprising all stakeholders in the Convention of the Highlands and Islands.

The core team of the Highlands and Islands Science Skills Academy is now in place, as are local steering groups for the first two Newton Rooms, in Caithness and Lochaber. The Newton rooms are specialised STEM rooms where science, technology, engineering and mathematics activities will be taught to classes of school children.

### **Digital**

The Digital Highlands and Islands next generation broadband project has met its contractual targets. Including commercial roll out, more than 230,000 homes across 240 towns and villages, which equates to 85% of the region's premises, have access to the fibre-based network. Targets in each local authority area have also been met or passed.

High levels of take-up and efficient delivery means the project is reaching further, and build is continuing until September 2019.

Provision of 4G upgrades to existing sites across the Highlands and Islands is progressing well with 4G becoming available now in many locations for the first time.

HIE continued to deliver the DigitalBoost project across the region until the end of June 2017, thereafter the project transferred to COSLA / Business Gateway. In this period, the project delivered 23 workshops across the region to 145 delegates and 14 one to one specialist advice cases.

Our new Digital Engagement Programme, covering June 2017 to March 2018, providing a deeper digital engagement focused on HIE clients and included cyber security, digital reviews, masterclasses and seminars.

We have adopted the national digital maturity ladder to monitor the extent to which our clients are actively engaged in the use of digital technology. We have undertaken a benchmarking exercise which will then inform our engagement and client interventions to support business growth.

HIE launched the Cyber Strong Business project in September 2017, fully funded by the Scottish Government Safer Communities Directorate until March 2018. We delivered a cyber resilience awareness roadshow across the Highlands and Islands, reaching 140 businesses.

### **Internationalisation**

On International Trade, we continue to promote the opportunities for businesses across the region, seeking to encourage new or non-exporters into HIE's support programme, offering advice, information, signposting and funding. Similarly, for HIE's account managed businesses we continue to support these through one-to-one support around strategy, planning and funding, and access to live and digital events across the region.

For Inward Investment, we have developed a sectoral SWOT analysis across the region. To attract new inward investment, we are prioritising the sectors of Life Sciences, and Technology and Advanced Engineering, given their relative strengths. To support existing investors, we have developed a prioritised programme of engagement with key businesses that potentially offer further opportunities for investment in the region.

### International trade

Through our International Highlands and Islands (IHI) programme, we provided 331 instances of support to 261 new, existing and potential exporters.

HIE delivered 25 awareness and export training events to 231 participants from 193 businesses, including a roadshow with Inverness Chamber of Commerce and 'Doing Business' events in the US and India.

A 'Planning for Export Success' programme for ambitious oil and gas supply chain businesses was developed and delivered in Shetland in partnership with SDI.

Our IHI advisers in food and drink and tourism helped 77 new and early stage exporters, and developed 75 international action plans. SDI's Export Advisory Service provide intensive support to 42 businesses. Managers from 10 companies participated in bespoke international strategy workshops and developed 10 international plans.

The 'Go Global' programme provided 55 grants of £197,174 to support 46 companies to exhibit at tradeshows, attend trade missions, undertake market visits or develop products for international markets. The funding is expected to generate international sales of £9.9m in key target markets in the EU, US and Asia Pacific.

In partnership with SDI, we delivered specialist support to businesses across the region. 24 growth companies were supported to deliver significant international growth projects. Over 60% of these were from the food and drink sector.

IHI continued to expand the digital offering with the launch of the 'Be Business Brave' campaign in January, encouraging businesses to take the first step into exporting.

HIE helped secure six inward investment projects in the year, delivering 67.5 FTEs across tourism, life sciences, food and drink and TAE sectors. Successes were spread across the region, with Innes Gall, Lochaber, Skye and Wester Ross, Inner Moray Firth and Moray benefiting. Of the six projects delivered, four were from new investors to Scotland.

To measure how our support meets our objectives by supporting businesses and social enterprise, strengthening communities and fragile areas, developing growth sectors and creating the conditions for a competitive and low carbon region, we apply a comprehensive framework of measures. We use performance measures to help monitor the contribution we make in terms of our economic and social impact on the longer-term goals of Scotland's Economic Strategy and our ambitions as set out in operating plan.

Further details of how HIE measure performance can be found in our operating plan [www.hie.co.uk/operatingplan](http://www.hie.co.uk/operatingplan)

## Financial commentary

### Investment Spend

During the year HIE received additional funding of £13.83 million from the Scottish Government. This increased baseline grant in aid from £55.7 million to £69.53 million. The main elements of the additional funding related to grant in aid for the operation of the Wave Energy Scotland Subsidiary (£9.8m) and other energy projects.

HIE income from activities of £3.7 million was £0.1 million higher than the prior year, primarily due to increase in property rental income. Group income from activities of £3.8 million was £0.2 million higher due to the increase in property rental income and income arising from the sale of investments with one of the HIE subsidiaries. Other income of £15.4 million (Group £15.7 million) was £8.3 million (Group £7.7 million) lower than 2016/17. The reduction in other income is as a result of the support for phase one of the broadband roll out coming to an end.

Expenditure on continuing operating activities within HIE decreased by 7.6% (Group 5.9%) to £73.9 million (Group £73.4 million) as a result of the decreased funding for broadband. Operating expenditure for Wave Energy Scotland Limited was 12.9% (2017 7.8%) of operating expenditure of the group.

Other management expenditure increased by £2.5 million (Group £2.4 million) due to an increase in provisions and investment fair value changes.

### Fixed Assets

During 2017/18 Highlands and Islands Enterprise spent £3.3 million (Group £3.4 million) on property construction projects, plant and equipment additions.

At 31 March 2018 the net book value of HIE property, plant and equipment was £39.4 million (Group £39.4 million). This is a decrease of £1.8 million (Group £1.8 million) on the prior year. Commercial properties were valued at market value.

Financial assets amounted to £3.0 million (Group £2.6 million). This was a decrease of £0.1 million (Group £0.1 million) on the prior year.

### Current Assets

Current assets stood at £10.2 million (Group £11.9 million) at 31 March 2018, £2.3 million (Group £2.6 million) lower than the prior year. The majority of the decrease in assets relates to assets held for resale and cash and cash equivalents at the year end.

### Current Liabilities

Current liabilities stood at £13.6 million (Group £14.3 million) at 31 March 2018, £0.5 million higher (Group £0.5 million) than the prior year.

**Pension Liabilities**

The group pension liability has decreased from £56.3 million to £39.0 million in 2017/18. The decrease is primarily due to an increase in the discount rate used to value the scheme liabilities. The increase in the discount rate assumption has arisen due to a fall in expected long term life expectancy and an increase in interest rates.

**Payment to creditors**

HIE observes the Government's policy for prompt payment and is committed to paying suppliers within 10 days of receipt of a valid invoice, where no other contract timetable applies

The following table shows HIE's performance in meeting standards of service:

Standard	Performance 2017/18	Performance 2016/17
In line with government policy, aim to pay all invoices promptly - target 10 days <i>Note: excludes items under dispute or where other terms are agreed with a supplier</i>	86%	87%

**Events after the Statement of Financial Position**

No post Statement of Financial Position events occurred.

**Corporate governance**

Highlands and Islands Enterprise has procedures in place to ensure the highest standards of Corporate Governance are maintained at all times. Further information is provided within the Governance Statement. While the remuneration and the service contracts of Board members are set by the Scottish Government, the recommendations of the UK Corporate Governance Code have been applied, in so far as they are appropriate to Highlands and Islands Enterprise. Full details of all elements in the remuneration package of each Board member are disclosed in the Remuneration Report.

**Conflicts of interest procedures**

HIE operates strict and comprehensive procedures to deal with potential conflicts of interest. These include HIE holding, and updating at least annually, registers of interests covering not only board members/directors but also members of staff. These registers are available to any member of the public who wishes to examine them. Interests which must be registered, in terms of the name and nature of the organisation in which the interest is held, include: remuneration, related undertakings, contracts, houses, land and buildings, shares and securities, non-financial interests, gifts and hospitality.

Whenever a Board member/director or member of staff has an interest in an application for assistance, they are required to declare the interest and thereafter to take no part in the investigation, processing or approval of the case. Such declarations by Board members/directors are recorded in the minutes of the appropriate Board meetings.

**Future Developments**

HIE's 2018-19 operating plan was published in May 2018, and sets out the agency's aims, aspirations and actions that are planned to generate growth in all parts of the region and contribute to Scotland's Economic Strategy. The plan is available online at [www.hie.co.uk/operatingplan](http://www.hie.co.uk/operatingplan)

In line with Scotland's Economic Strategy, which the First Minister launched on 3 March 2015, HIE is increasing its efforts to support innovation, investment, internationalisation and inclusive growth.

HIE, while reflecting the recommendations of the Enterprise & Skills Review, is attentive to the emerging themes and priorities of the Strategic Board and will align future operational and strategic planning with the Strategic Board's Strategic Plan once finalised. The activities that HIE undertakes are appropriately aligned with the Programme for Government and Scotland's Economic Strategy (taking proper cognisance of Ministers' priorities and wider policy interests) and reflect the terms of the Ministerial Letter of Strategic Guidance

**Public interest reporting**

**Information request processing**

As a publicly-funded organisation, HIE is committed to full compliance with: -

- Freedom of Information (Scotland) Act 2002 (FOISA)
- Environmental Information (Scotland) Regulations 2004 (EIRs)
- Data Protection Act 1998

In 2017-18, HIE received 99 information enquiries.

	2018	2017
Freedom of Information (Scotland) Act 2002 (FOISA):	77	74
Environmental Information (Scotland) Regulations 2004 (EIRs):	22	5
Data Protection Act 1998	0	0
<b>Total</b>	<b>99</b>	<b>79</b>

A detail of our response times and information request handling is as follows.

<b>Information request handling performance</b>	<b>2018</b>	<b>2017</b>
Average time to fully respond and close a request for information:	14Days	14 Days
Percentage of requests requiring a response which received a response within the statutory timescales:	94%	97%
Percentage of requests which received a late response:	6%	3%
Percentage of requests fully or partially disclosed:	77%	69%
Percentage of requests which were vexatious:	9%	5%
Percentage of requests which were withdrawn:	1%	2%
Percentage of requests not held:	7%	21%

**FOISA exemptions and EIRs exceptions applied to requests for information**

The number of occasions exemptions were applied to requests received under the Freedom of Information (Scotland) Act in 2017/2018.

<b>Section of the Act</b>	<b>Description of exemption</b>	<b>2018</b>	<b>2017</b>
30 (c)	Prejudice effective conduct of public affairs	6	4
33 (1) (b)	Prejudice commercial activities	11	6
38 (1) (b)	Breach of Data Protection Principles / Third Party Personal Data	10	8
30 (b)	Free or frank provision of advice	1	1
36	Confidentiality of communications	9	1
EIR Regulation 10 (5)	Confidentiality of Commercial information	9	1

<b>Number of requests for reviews:</b>	<b>2018</b>	<b>2017</b>
Freedom of Information (Scotland) Act 2002	4	3
Environmental Information (Scotland) Regulations 2004	4	1
<b>Total</b>	<b>8</b>	<b>4</b>

Number of appeals to the Office of the Scottish Information Commissioner: 3                      0

The Scottish Information Commissioner has asked all Scottish public authorities to provide FOI and EIR statistics on a quarterly basis. HIE has provided quarterly statistics towards the national dataset of FOI and EIR statistics in Scotland covering the year 2017/18.

**Customer Service**

We are committed to continually improving our service and welcome comments and suggestions. We record both positive and negative feedback and ensure lessons are learned for the future.

**Complaints**

We take all complaints seriously and have an effective, easy to use complaints procedure. Where possible, we try to resolve complaints at the first point of contact through frontline resolution. If we are not able to do this, a complaint investigation will be carried out. During the period from 1 April 2017 – 31 March 2018, a total of 14 were dealt with through Frontline Resolution with just 2 requiring an investigation.

	Frontline resolution	Investigation	SPSO
1 April 2017 – 31 March 2018	14	2	1

When a complaint cannot be resolved internally, a complainant is entitled under the terms of the Scottish Public Services Ombudsman (SPSO) Act 2002 to have their complaint considered by the SPSO. One complaint was considered by the SPSO during 2017/18 (2016/17 Nil) which was not upheld by the SPSO.

**Employee involvement and communication**

Over the course of 2017/18, our HR activity has delivered on a number of priority areas and contributed to the wider development of the organisation.

HIE’s remit is to make a difference. Our employees identify very strongly with this and alignment with personal values being the main

reason, our employees give for working for HIE. The strengths of HIE’s culture is evidenced by a committed workforce passionate about the Highlands and Islands.

In terms of the national strategic context, as a public-sector employer, HIE has a key focus on the wider social inclusion agenda. HIE is accredited as a Living Wage employer and supports a number of national initiatives ranging from demonstrating commitment to the Social Impact Pledge, encouraging volunteering, meeting the Investors in People and Young People standards, adopting the principles of fair work as established by the Fair Work Convention, as well as being recognised nationally as an award-winning family friendly employer by Family Friendly Working Scotland and Carers Scotland.

In 2017 HIE won the UK Top Employers for Working Families award, Best for Carers and Eldercare and most recently was awarded Gold level accreditation as an Investor in Young People which underlines our commitment to developing a flexible workforce over a number of years.

Within HIE the key areas of focus for our people agenda have been on:



### Talent attraction and retention – developing the workforce

At 31<sup>st</sup> March HIE’s workforce stood at 306 employees We continue to ensure that the organisation remains an employer of choice which is key to effective employee recruitment and retention. We make use of social media and online recruitment channels, and new videos and case study materials promoting HIE have been developed for a range of roles from placement projects to the role of Chief Executive. From 1 April, 61 posts have been recruited to, 36 internally in line with HIE’s agreed approach to vacancy management. Workforce planning is linked to HIE’s strategic approach and is strictly managed within budgetary parameters.

Employment policies are regularly updated and benchmarked against other organisations to remain competitive. Provisions within the maternity, paternity, special leave and further education policies have all been reviewed and enhanced.

We continue to focus on youth employment and offered five graduate placements this year. As well as increasing the overall numbers of younger employees, we have also been successful in developing and retaining younger employees. Modern Apprenticeships have been recognised and valued as an excellent way to develop relevant on-the-job skills and experience and offer young people the opportunity to ‘earn while they learn’ and gain recognised qualifications. We now fill all entry level administrative vacancies with Modern Apprentices and on successful completion of the SVQ qualification guarantee an offer of appointment to a permanent promoted post. This scheme has worked particularly well in Benbecula in the Western Isles which is a remote and fragile area at risk of depopulation. This approach has provided a pipeline of young talent and development opportunities for employees in our Data Centre.

Success in attracting, retaining and developing young people has been recognised through the achievement of Investors in Young People (IiYP) at the highest Gold level. This has been as a result of a range of approaches which have focused on the:

- Development and introduction of HIE’s in-house graduate placement programme
- Employment and training of Modern Apprentices
- Provision of short-term tailored/individual placements
- Provision of development opportunities focused on the needs of young people and employees in the early stages of their career with HIE, e.g. Young Scotland Programme
- 100% financial support for any young employees undertaking any further education/professional qualifications
- Promoting HIE as a local employer of choice for young people

Workforce of the future – we are also focussing on the requirements of the workforce of the future, what this means and will look like for HIE. Early work on this has involved engagement with Age Scotland.

### Social and Community

In pursuit of sustainable economic growth, Highlands and Islands Enterprise contributes to the Scottish Government’s strategic objectives for social and regional equality. Supporting communities to develop and grow is a central focus for our organisation. Our approach to ensure delivery of the mutually supportive goals of increasing growth (opportunity) and tackling inequality (need) as articulated in Scotland’s Economic Strategy is key to our work. Fundamental to success is the need to take a long-term view in addressing systemic, intractable challenges – particularly for those in our most remote, rural and island communities.

As an employer, HIE is supportive of the unpaid voluntary work undertaken by employees. The entitlement increased from 2 days to 3 days with effect from 1 August 2017 as part of the new pay agreement.

Highlands and Islands Enterprise has well developed policies and procedures to address anti-corruption and anti-bribery matters. All Highlands and Islands Enterprise staff are required at all times to act honestly and with integrity and to safeguard the public resources for which they are responsible. Highlands and Islands Enterprise will not accept any level of fraud or corruption. All Highlands and Islands h Enterprise staff are encouraged to raise concerns about possible improprieties in the conduct of Highlands and Islands Enterprise business whether in matters of financial reporting or other malpractices, including fraud, bribery or blackmail, criminal offences, failure to comply with a legal or regulatory obligation, miscarriage of justice, endangering the health and safety of an individual or concealment of any of these matters. The policy is designed to support Highlands and Islands Enterprise values and ensure that staff can raise concerns without fear of suffering retribution and ensures there is a transparent and

confidential process for dealing with concerns

### **Engagement**

One of the key recommendations from our IIP assessment was the development of a staff forum to enhance employee involvement and engagement on a range of people-related issues. During June, employee volunteers from across the organisation put themselves forward to establish a staff forum of 30 members giving a “diagonal slice” of the organisation in terms of seniority, business units, client and non-client facing employee, gender balance, age etc. Forum members have agreed that the guiding principle is “**to work together to make HIE a better place to be**”. Since the first meeting in August the forum has been active in contributing to new policy developments and reviewing our organisational culture and values as well as engaging jointly with our leadership team on a range of employee-related issues.

At the individual level, we can identify that employees that are more engaged have lower intention to leave and lower absence rates and report higher job satisfaction than employees who are less engaged.

Key indicators of engagement are measured through performance feedback, employee survey and IIP assessments, retention rates, absence and attendance figures and exit interviews.

### **Performance, development and growth**

In early June HIE’s Account Management Development programme was launched with a senior sponsor event. Four cohort groups of 16 employees have now attended the two-day Core Consulting Skills Programme. Each cohort has been split into two groups to undertake a series of Application Learning Sessions, approximately 6 weeks apart. Each application group is externally facilitated by a Roffey Park consultant. In-house support and guidance for internal systems and processes, due diligence and ways of working to support the development of account managers is also a key component of the programme. A series of additional modules for coaching and facilitation have also been provided.

In addition, employees have benefitted from a range of centrally provided or funded learning and development opportunities including corporate induction, media skills, line management training, team development, mental health awareness, dignity at work as well as individual/specialist training programmes, online learning through the Civil Service learning portal and a range of further education/professional development opportunities.

HIE’s Leadership Team has re-emphasised the importance of the performance review and development planning process in managing, developing and supporting all employees. HIE’s online process supports employees and managers to do this in a fair, open and consistent way. This year 93% of all employees have participated in the annual review process and closer scrutiny has enabled the Leadership Team, in conjunction with HR, to identify areas of good practice as well as any inconsistencies in how teams are using the system.

As part of HIE’s commitment to support all employees in the early years of their career, and not just graduates and Modern Apprentices, we offer an annual opportunity for employees to apply for the Young Scotland Programme (YSP). Since 2012, 15 employees have attended this prestigious residential programme where delegates from a range of sectors and organisations come together to participate in group discussions and debates as well as attending presentations given by speakers from a number of industries. Year on year, the number and quality of applications have increased.

HIE recognise the importance of personal development, not only in alignment with the delivery of organisational priorities but also key in supporting career management and future employability.

### **Recognising and rewarding excellence**

HIE works closely with the Scottish Government Finance Pay Policy Unit and our recognised Trade Union PCS to agree our remit for pay and benefits within overall Government pay guidelines. Within these constraints we have been able to offer enhancements to pay and benefits including special leave provisions for volunteering and support for carers. In April, the new MyLifestyle benefits portal was introduced providing employees with a personal online benefits “hub” giving access to their salary sacrifice benefits as well as a range of exclusive money saving discounts, rewards and benefits.

### **Health and wellbeing**

HIE aims to help employees achieve an optimum balance between work and home life, and to have workplace policies, ways of working, health-related benefits and a workplace environment that promotes health and well-being opportunities for all employees. We recognise the variety of caring responsibilities which are held by our employees, e.g. childcare, eldercare, foster care etc. Our employees appreciate HIE’s family friendly culture and support for flexible working which comes through as a strong and consistent finding in employee surveys and assessments over a number of years.

From this year in support of any HIE employees with caring responsibilities, employees can now access one day’s paid special leave in a rolling 1 year period to undertake research into and to access support resources for carers. In terms of external recognition, HIE was named a Cycle Friendly Employer by Cycling Scotland; secured the UK 2017 Top Employers for Working Families Best for Carers and Eldercare; and built on our achievements last year with the Carer Positive Established Employer award.

As well as supporting and positively promoting workplace health and wellbeing, a specific focus has been on ensuring the accurate recording of sickness absence and the performance of return to work interviews to identify on a monthly basis where sickness absence triggers have been hit. This involves regular monthly reporting and pro-active follow-up with line managers and specialist occupational health (OH) input to ensure that any required support and advice can be provided quickly. OH referrals for short and long-term absence have been actively managed resulting in a better return to work experience and an attendance record for HIE employees for time lost due to sickness absence well below the national UK average.

Before advertising any new post or backfill position, consideration must be given as to whether the post can be filled on a flexible basis or carried out from any office location across the HIE area, half the land mass of Scotland from Shetland in the north to Lochgilphead in the south. With our focus on new ways of working and the adoption of a no fixed desks policy and MS Lync technology, flexible working is possible for all HIE employees. Regardless of where employees are based they have remote access to all our network systems with use of shared screens and video conferencing from their laptops. Widespread use is made of Lync technology to work collaboratively through knowledge sharing webinar events. This means that employees based in more remote locations are not disadvantaged, and also in some instances removes the necessity to travel and incur overnight stays away from

home.

**Leadership and management capability**

HIE's leadership development programme is a high value development opportunity which draws on latest approaches/best practice to provide a tailored experience to deliver impact for the business, as well as developing the potential of individuals and building a talent pool of leaders to aid with succession planning to key roles. The emphasis is on enabling leaders to put theory into practice by applying it to their live leadership challenges. The third cohort of 12 HIE employees selected to attend, completed their final module in December and continue to support each other through peer application/action learning groups.

In addition, the prestigious Cook Conversations, sponsored by HIE and SE, provides a unique leadership development experience by bringing together exceptional individuals and future leaders from a wide range of different professional backgrounds, culture and experiences to challenge and shape participants' outlook and future development. HIE supports one place on each of the two programmes which run in May and October every year.

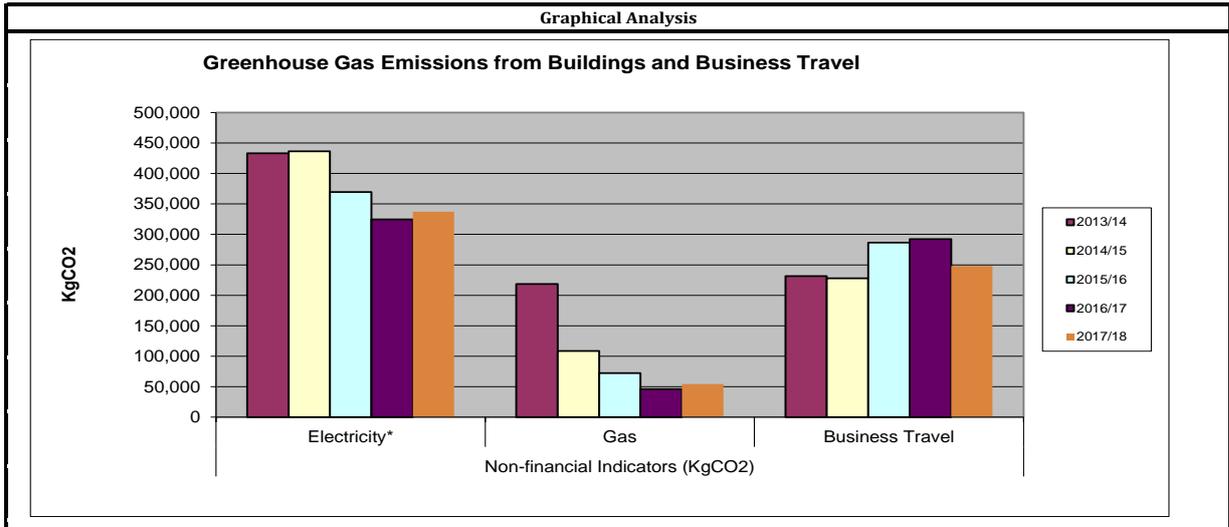
Management capability has been enhanced through specific support given to new line managers as part of a tailored induction programme. A practical programme on tools and techniques to develop line management skills has been piloted with excellent feedback.

**Sustainability and environment**

HIE is committed to the reduction of carbon usage, our internal carbon management plan was launched in March 2011. HIE are one of 14 organisations within the Highlands and Islands who signed up to the Joint climate change declaration in June 2010.

We encourage our clients to reduce their carbon consumption and are committed to creating the conditions for a competitive and low carbon region. Further details of our planning for a low carbon region can be found in the HIE operating plan.

Utilities and Business Travel		2013/14	2014/15	2015/16	2016/17	2017/18
Non-financial Indicators (KgCO2)	Electricity*	433,116	436,151	369,654	324,639	337,080
	Gas	218,389	108,616	72,274	45,940	54,269
	Business Travel	231,599	227,952	286,437	292,376	248,049
Related Energy Consumption (KWh)	Electricity	979,058	889,687	806,224	792,634*	966,262
	Gas	1,180,480	587,113	390,672	225,139	277,008
Financial Indicators (£'s)	Electricity	149,758	104,674	108,677	117,113	120,675
	Gas	52,673	23,705	15,865	14,971	14,459
	Business Travel	682,631	692,167	732,738	700,263	694,228

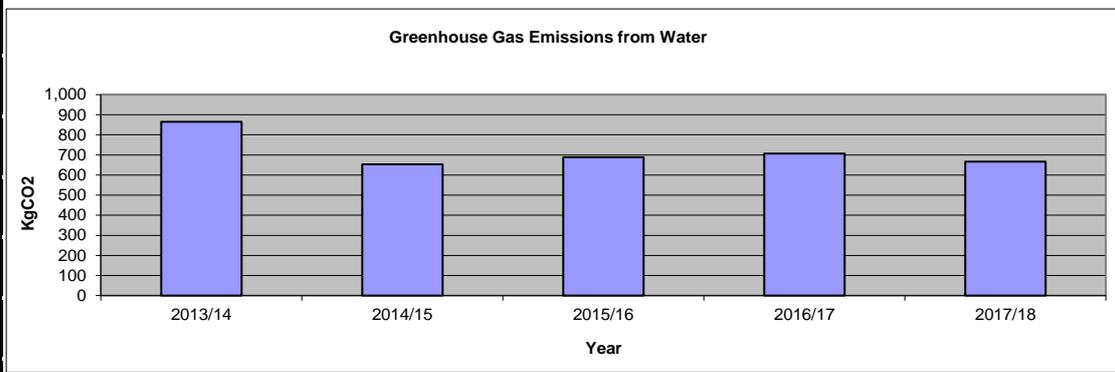
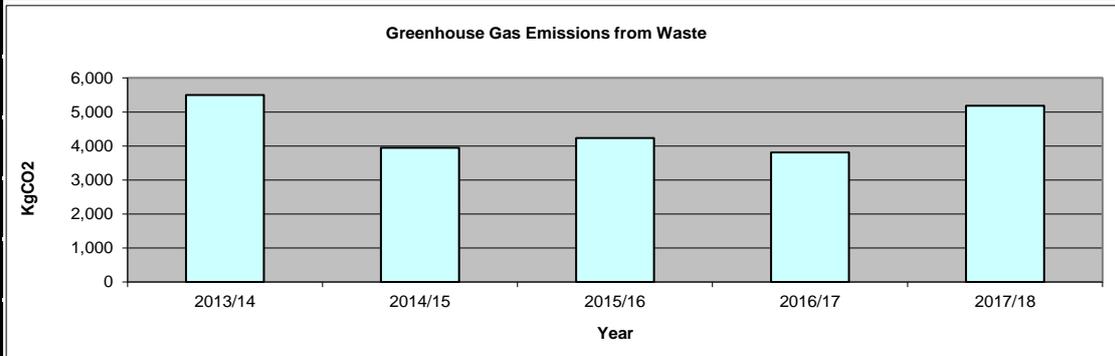


**Performance Commentary**  
 Electricity and Gas usage has increased in comparison to previous years as the full year data is now available for all locations occupied by HIE. These figures provide the baseline for comparison in future years. Business travel emissions have reduced in comparison to the previous year as a result of a reduction in private car mileage.  
 \* Prior year figures updated to reflect DEFRA conversion factors for relevant years  
 † Updated following correct data for 2 offices

**Controllable Impacts Commentary**  
 Highlands and Islands Enterprise (HIE) recognises the importance of managing its carbon footprint and is committed to reducing its emissions and associated operating costs. HIE supports and implements the duties placed on public sector organisations within Part 4 of the Climate Change (Scotland) Act 2009 and works with stakeholder groups to meet one of its key priorities for the transition to a competitive and low carbon region.  
 The organisation has implemented a number of initiatives in recent years which have resulted in an actual emissions reduction, including a rationalisation of the occupied property estate portfolio and continued initiatives around new ways of working. The completed relocation to the new Inverness site of An Lochran and a full year picture of utilities usage now provides a realistic baseline for future years on which these targets can be set. Improved collation of data for both energy usage from buildings and business travel will be hugely beneficial to provide increased accuracy of raw data and wider scope of reporting.

Waste and Water		2013/14	2014/15	2015/16	2016/17	2017/18
Non-financial Indicators (KgCO2e)*	Total greenhouse emissions from general waste	5,500	3,946	4,233	3,811	5,183
	Measurable greenhouse emissions from water	864	653	688	707	666
Non-financial Indicators	General Waste (kg) <sup>†</sup>	18,976	13,615	9,222	9,051	8,801
	Recycled Waste(kg)	26,730	26,563	25,670	22,280	16,520
	Measurable Consumption (m3)	2,512	1,897	2,000	2,054	1,937
Financial Indicators (£'s)	Disposal Cost	51,252	48,518	51,849	54,852	47,266
	Measurable Water Cost	50,536	37,414	25,850	38,548	18,156

**Graphical Analysis**



**Performance Commentary**

HIE is committed to reducing the general waste produced throughout the organisation and provides a range of recycling facilities at all occupied premises.

The quantity of general waste has reduced year on year since 2013/14, as well as a reduction in waste recycling. This is mostly due to a reduction in desk bins, general waste facilities and an increase in recycling provision. The total greenhouse emissions from general waste has increased in the current year due to an increase in the updated DEFRA conversion factor for municipal waste.

\* Prior year figures updated to reflect DEFRA conversion factors for relevant years

† General waste is non-recycled waste, prior year figures corrected they included recycled waste

**Controllable Impacts Commentary**

HIE works closely with suppliers and local partner organisations to ensure the full provision of recycling facilities across all offices. This ensures that the organisation pro-actively works within a culture that encourages recycling .

In some cases, a reduction in water usage will reduce cost and emissions, although for some offices this will not be evident due to lease arrangements. Best estimates have been used for metered water consumption where actual data has not been available.

**Accounts direction**

The Group and Highlands and Islands Enterprise accounts are prepared in accordance with section 30(1) of the Enterprise and new Towns (Scotland) Act 1990 and the Accounts Direction from the Scottish Ministers

C Wright  
Highlands and Islands Enterprise

Date 13 August 2018

# Accountability Report

## Corporate Governance Report

### Directors' Report

#### Board

The members of the Highlands and Islands Enterprise board, with the exception of the Chief Executive are appointed by the Scottish Ministers

#### Board Membership

Prof. L D Crerar (Chair)  
Mrs C Wright (Chief Executive) (Appointed 06/06/2017 – Interim 27/08/ 2016 to 05/06/2017)  
Mr W Swann (Appointment ended 30<sup>th</sup> June 2018)  
Mr D MacDonald (Appointment ended 30<sup>th</sup> June 2018)  
Ms I MacTaggart (Appointment ended 30<sup>th</sup> June 2018)  
Prof D MacRae OBE  
Mr A Dodds CBE  
Mr P Crerar CBE  
Ms A Bryan  
Ms A Gray  
Mr R McIntosh CBE  
Ms A B Oldfield

Details of company directorships and other significant interests held by Board Members are available at [www.hie.co.uk/about-hie/offices-and-staff/board-members/default.html](http://www.hie.co.uk/about-hie/offices-and-staff/board-members/default.html)

#### Leadership Team

The leadership team are responsible for the day to day management of Highlands and Islands Enterprise operations and activities. The Chief executive is a member of both the Board and the Leadership Team.

#### Leadership Team Membership

Mrs C Wright (Chief Executive) (Appointed 06/06/2017 – Interim 27/08/ 2016 to 05/06/2017)  
Mr N B Kenton (Finance and Corporate Services Director) (Appointed 04/07/2017)  
Mrs C Buxton (Regional Development Director)  
Mr D Cowan (Strengthening Communities Director)  
Mr D J Oxley (Business and Sector Development Director) (Appointed 01/10/2017 – Interim 27/08/ 2016 to 30/09/2017)

#### Register of Board Members' Interests

Highlands and Islands Enterprise supports the highest standards of Corporate governance and has in place Codes of Conduct both for Board Members and Staff. In compliance with the Ethical Standards in Public Life etc. (Scotland) Act 2000, Highlands and Islands Enterprise Code of Conduct for Board Members is published on our website, together with details of company directorships and other significant interests held by Board Members.

[www.hie.co.uk/about-hie/who-we-are/board-members/default.html](http://www.hie.co.uk/about-hie/who-we-are/board-members/default.html)

#### Performance Report

In accordance with section 414(c) (11) of the Companies Act 2006, Highlands and Islands Enterprise has chosen to include several matters in the performance report which would otherwise be included in the Directors Report.

These matters are: -

- Review of business and performance against key performance indicators
- Future developments
- Sustainability and environmental matters
- Information about employees and social and community issues

#### Funding

Highlands and Islands Enterprise primary source of funding is Grant in Aid from the Scottish Government. The resource allocation for 2018/19 is £71.6m and together with in year budget revisions and funds generated by Highlands and Islands Enterprise from the use or sale of assets, European income and other partner contributions are deemed adequate for HIE to continue for the foreseeable future.

#### Financial Instruments

Highland and Islands Enterprise has exposure to liquidity, credit and market risks from its use of financial instruments. The extent of these risks is set out in note 24 to the accounts.

### **Retirement benefits**

All staff with contracts of three months or more are eligible and automatically join the Highlands and Islands Enterprise Superannuation Scheme unless they opt out. Further details are provided in the Remuneration and staff Report and in notes 1 and 17 to the accounts.

### **Data loss**

There were no reported instances of data loss during the financial year.

### **Statement as to disclosure of information to the auditor**

As far as the Accountable Officer is aware, there is no relevant information of which HIE's auditors are unaware. The Accountable Officer has taken all necessary steps to make herself aware of any relevant audit information and to establish the Highlands and Islands Enterprise's auditors are aware of that information.

### **Appointment of auditors**

The accounts of Highlands and Islands Enterprise are audited by auditors appointed by the Auditor General for Scotland. The appointed auditor for the year ended 31 March 2018 was Gordon Smail, Assistant Director of Audit, Audit Scotland. Fees chargeable for audit services provided by Audit Scotland amounted to £133,490 (2017 - £131,510). There were no fees payable to Audit Scotland for non-audit work during the year (2017 Nil).

### **Severance Payments**

Detail of severance payments are included within the exit packages section of the remuneration and Staff report

## **Statement of Accountable Officer's responsibilities**

Under section 30(1) of the Enterprise and New Towns (Scotland) Act 1990 the Scottish Ministers have directed Highlands and Islands Enterprise to prepare for each financial year a statement of accounts in the form and on the basis set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Highlands and Islands Enterprise and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the accountable officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the accounts direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed and disclose and explain any material departures in the financial statements and
- prepare the financial statements on a going concern basis.

The Principal Accountable officer for the Scottish Government has designated the Chief Executive as the Accountable Officer of Highlands and Islands Enterprise. The responsibilities of an Accountable Officer, including responsibility for the propriety and regularity of the public finances for which the Accountable Officer is answerable, for keeping proper records and for safeguarding Highlands and Islands Enterprise assets, are set out in the Memorandum to Accountable Officers of other Public Bodies on appointment and as set out in the Scottish Public Finance Manual.

The Accountable officer is responsible for the maintenance and integrity of the corporate and financial information included on Highlands and Islands Enterprise's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

As the Accountable officer, as far as I am aware there is no relevant information of which Highlands and Islands Enterprise's auditors are unaware and that I have taken all necessary steps to make myself aware of any relevant audit information and to establish that Highlands and Islands Enterprise's auditors are aware of that information.

Furthermore, I confirm that the annual report and accounts as a whole is fair, balanced and understandable and as Accountable Officer am personally responsible for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

## Governance Statement

### Scope of responsibility

As Accountable Officer, I have responsibility for maintaining a sound system of corporate governance and internal control that supports the achievement of Highlands and Islands Enterprise's policies, aims and objectives, set by Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

As Accountable Officer, I have specific responsibility in relation to:

- Best Value, including the concepts of corporate governance and continuous improvement
- Planning, performance management and monitoring
- Advising the Board
- Managing risk and resources
- Accounting for HIE's activities

The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds. It sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety. An element of my responsibility as Accountable Officer is to ensure HIE's internal control systems comply with the requirements of the SPFM.

The system of internal control is based on an ongoing process designed to identify, prioritise and manage the principal risks facing HIE. The system aims to evaluate the nature and extent of risks, and manage them efficiently, effectively and economically. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve HIE's aims and objectives. As such it can only provide reasonable and not absolute assurance.

### Governance framework

Highlands and Islands Enterprise is established under the Enterprise and New Towns (Scotland) Act 1990. The primary aim of HIE is to focus its activities on achieving the Government's purpose which is to create opportunities for all in Scotland to flourish through increasing sustainable economic growth. Ministers expect HIE to do this by pursuing Scotland's Economic Strategy.

A Framework Agreement, drawn up by the Scottish Government, sets out the broad framework within which HIE will operate. It does not convey any legal powers or responsibilities.

The HIE corporate governance framework provides a balance between the underpinning governance standards which prescribe the rules and assurance activity within which HIE is required to operate, and the messaging which provides an endorsement for innovative and creative thinking to take place within this environment.

HIE regularly reviews and updates its governance framework in line with developments in good practice, changes in external regulation and in light of its own reviews of effectiveness.

HIE requires high standards of integrity for all staff, clients and suppliers and has policies and controls in place to minimise risk, and ensure a strong control framework operates. A Fraud Response and Security Review Team exists to consider reports and make recommendations for action required on suspected fraud or irregularity and suspected security breaches. It also makes recommendations for strengthening existing controls and communicating lessons learned wider. HIE also takes part in the National Fraud Initiative which further enhances our consideration of the control environment.

### Strategic Board

In 2017, following completion of an end-to-end review of the enterprise and skills system undertaken by the Scottish Government, a new Strategic Board for Enterprise and Skills was established to help deliver Scotland's ambition to rank among the top quartile of OECD countries for productivity, equality and sustainability. With an independent chair, and representation from the private, public and academic sectors, the Strategic Board will seek to maximise the impact of the collective investment we make in enterprise and skills development across Scotland.

A key focus for HIE in 2018/19 is to inform and deliver the collaborative actions agreed by the Strategic Board to improve how we work together and the impact we make. HIE will continue to support the development of the Strategic Board's Strategic Plan and thereafter support implementation of its recommendations.

### Operation of the Board and sub-committees

As at 31 March 2018 the Board of Highlands and Islands Enterprise comprised the Chair, ten non-executive members and myself as Chief Executive.

Board members are appointed by Scottish Ministers and their remuneration is determined by the Scottish Government. Individual Board members act in accordance with their wider responsibility under a code of conduct and in the best interests of HIE.

The Board met in full six times in year and a further two times to discuss specific papers. Additionally, they met once to discuss the Enterprise and Skills Review project plan and a further time for a Board Strategic Planning day.

The Board is responsible for the overall direction of the organisation within the strategic and funding framework set by Scottish Ministers. It has general corporate responsibility for:

- Establishing the overall strategic direction of HIE within the policy, planning and resources framework determined by the Scottish Ministers
- Ensuring Scottish Ministers are kept informed of any changes which are likely to impact on the strategic direction of HIE
- Ensuring HIE complies with any statutory or administrative requirements for the use of public funds and, in so doing, satisfying itself that HIE operates within the delegated authorities agreed with the Scottish Government Directorate for Economic Development
- Ensuring review of regular financial information concerning the management of HIE
- Ensuring high standards of corporate governance are observed at all times
- Providing commitment and leadership in the development and promotion of Best Value principles throughout HIE
- Overseeing delivery of planned results by monitoring performance against agreed corporate objectives, measures and targets on both an in-year and longer-term basis

The Board is supported by the Risk and Assurance and Remuneration Committees. Additionally, an executive Health and Safety Committee is in place to report on issues related to Health and Safety.

The Risk and Assurance Committee comprises a Chair and three non-executive members. Representatives of the Scottish Government departmental accountable officer and Audit Scotland, the Chief Executive, Director of Finance and Corporate Services and Head of Business Improvement and Internal Audit normally attend these meetings.

The Committee met in full four times in the year, and a further meeting was held to discuss the Risk and Assurance development programme, including a review of effectiveness. Minutes of the Risk and Assurance Committee are provided to the full Board for information and an annual report on its activities is also provided.

The members of the Risk and Assurance committee during the year were:

A Dodds (Chair) CBE  
 D MacDonald  
 Professor D MacRae OBE  
 A Gray

The work of the Risk and Assurance Committee during the year has been comprehensive and has provided positive assurance for the Board in relation to the Internal Control environment. The work of Internal and External Audit has identified a number of areas where action is required on an ongoing basis and the Risk and Assurance Committee will continue to monitor these areas.

The remuneration committee has been set up to deal specifically with the reward arrangements of HIE's Chief Executive and the HIE Executive Directors. The Committee met twice in year.

The members of the committee during the year were:

Professor D MacRae OBE (Chair)  
 Professor L Crerar  
 Mr D MacDonald

The Health and Safety Committee, chaired by an executive director, exists to review the organisation's compliance with health and safety legislation, and to implement improvement plans as appropriate. The Committee met in full five times during the year.

## **Strategic and operational framework**

### *Strategy and planning*

Due to development of the arrangements for the new Strategic Board, HIE currently has a 1-year operating plan which reflects our statutory duties and priorities set by the Scottish Ministers. It sets out HIE's key objectives and performance measures for the forward years and is linked to Scotland's Economic Strategy and the National Performance Framework. The Board and Leadership team have responsibility for development of strategy and operating plan. The planning process will be refreshed during 2018/19 to be aligned with the arrangements arising from the new Strategic Board.

### *Business improvement*

HIE has a single strategic programme of continuous improvement activity aimed towards ensuring that, internally and externally, we are regarded as an organisation which delivers best value, inspires innovation and achieves successful outcomes.

### *Performance management*

HIE has a Corporate Reporting Framework which is in place to consider organisational performance throughout the year. This was discussed by the Board at each Board meeting.

### *Corporate Governance*

HIE complies with generally accepted best practice and relevant guidance related to governance matters.

#### *Decision making*

HIE's governance arrangements include clear roles and responsibilities and delegated authority arrangements and decision-making processes which are transparent and supported by a clear evidence base.

#### *Risk management arrangements*

All bodies to which the SPFM is directly applicable must operate a risk management strategy in accordance with relevant guidance issued by the Scottish Ministers. The general principles for a successful risk management strategy are set out in the SPFM.

HIE has a robust risk management strategy in place which empowers staff to be dynamic, innovative and take intelligent risks. The strategy identifies responsibilities of the Board, the Risk and Assurance Committee and executive staff. It also details the process of risk categorisation and approval and review process for the risk register by the Risk and Assurance Committee and the Board.

Implementation of the strategy includes:

- Financial planning model
- Assessment of risk by management on at least a quarterly basis
- Maintenance of business unit risk registers
- Maintenance of an overarching corporate risk register
- Assessment of risk at individual project level
- Independent reviews for high risk projects
- Action plans with clear accountability and timescales to address significant risks
- Consideration of actions taken to address risks
- Provision of the corporate risk register to the Board at each meeting
- Alignment to the HIE corporate reporting framework

The risk register was considered at each Board meeting and Risk and Assurance Committee meeting during the year. The Risk and Assurance Committee also considered the effectiveness of the process in year, including consideration and development of risk appetite. HIE continually assesses those risks which are considered significant to the achievement of its objectives. Key risks are noted in the Performance Summary, Principal Risks and Uncertainties.

#### **Group companies**

Wave Energy Scotland (WES) are a subsidiary of HIE which was created to address issues in the wave energy sector. We have worked to ensure appropriate governance arrangements and controls are in place to allow this subsidiary to meet its remit. An internal control checklist and annual assurance statement was provided for WES which highlighted no issues.

HIE-Ventures Ltd are a subsidiary of HIE established to provide equity and loan capital to companies located through the Highlands and Islands. An annual assurance statement was provided and noted no significant control issues during the financial year.

Orkney Research and Innovation Campus (ORIC) was established as a joint venture with Orkney Islands Council in year to establish a multi-disciplinary academic/business campus, based around the acknowledged marine energy/sustainability expertise which exists in Stromness/Orkney. The project will undertake the desired physical re-development of property assets in Stromness and own and operate the resultant campus facilities.

#### **Changing environment**

##### *GDPR*

HIE will be required to comply with the General Data Protection Regulations (GDPR) which became enforceable from 25 May 2018. These regulations significantly change the data protection environment and carries the potential for increased penalties. In preparation for this, HIE established a project team and is implementing a comprehensive action plan. HIE is taking a risk based approach to this activity and ensuring that priority is given to implementing all key actions necessary to establish a new GDPR compliant environment prior to the new regulations being effective. Work on this and in legacy requirements will continue into 2018/19. Regular updates have been provided to the HIE Leadership team and Risk and Assurance Committee.

##### *Cyber security*

Given the increased general risk relating to cyber security, alongside our partners we have strengthened our control environment in this area. Through our partnership with Scottish Enterprise and Skills Development Scotland for the delivery of Information Systems services through Enterprise Information Systems (EIS), this includes new overarching security governance arrangements led by EIS which look at issues such as systems, policy, education and incident management.

#### **Assurance Activity**

As Accountable Officer, I have responsibility for reviewing the effectiveness of the systems of internal control. My review is informed by:

- The Leadership team who have responsibility for the development and maintenance of HIEs governance, performance and internal control frameworks and normally meets weekly
- The Board who has responsibility for receiving, monitoring and commenting on regular management reports on governance matters, performance outcomes and risk management
- The work of the Risk and Assurance Committee, as delegated by the Board, which includes ongoing review of the external assurance functions and internal assessments on governance, risk and Best Value

- The work of the Business Improvement and Internal Audit team, who submit regular reports which include the independent and objective opinion on the adequacy and effectiveness of the systems of internal control, together with recommendations for improvement
- Comments made by the external auditors in their management letters and other reports

As part of HIE's internal control arrangement, we have in place an internal control assessment framework. This requires the heads of each business unit, including subsidiaries, to undertake an annual review of their area's internal controls. Each business unit and subsidiary completed an internal control checklist which is used to identify any control issues which should be brought to the attention of the Accountable Officer. Information provided is used to complete an organisational internal control checklist and Certificate of Assurance for HIE. During the year we identified opportunities to improve the control environment relating to VAT accounting, we have put in place new arrangements and appropriate accruals have been recorded in the accounts. We also received assurance from our Service Manager for IT services that they were not aware of any issues.

#### *Data security and IS assurance*

Procedures are in place to ensure information is being managed in accordance with legislation and that data is held accurately and securely. There have been no reported or recorded instances of data breaches during the year.

Revised arrangements for our IT provision were introduced during 2015/16, these arrangements are delivered by Enterprise Information Systems who sit within Skills Development Scotland and are delivered in partnership with Skills Development Scotland and Scottish Enterprise. During 2017/18 the Business Improvement and Internal Audit team has liaised with Skills Development Scotland and Scottish Enterprise in undertaking assurance reviews related to the provision of IS services in the period.

We have a programme of IS assurance work with our partners and have identified specific actions to be taken. As part of this IS assurance activity an independent service audit of the outsourced ICT Managed Services provision was undertaken in line with International Standards on Assurance Engagements ISAE 3402 "Assurance Reports on Controls at a Service Organisation". Unqualified reports covering the year to 31 March 2018 were issued. Two control weaknesses considered high risk were identified and EIS have established an action plan to address these progress against which is reported to the Service Assurance Board. Additionally, an improvement programme has been developed.

#### *Internal audit*

HIE has a Business Improvement and Internal Audit team which is independent of any operational group and the Head of Business Improvement and Internal Audit reports directly to me as Accountable Officer.

The Business Improvement and Internal Audit team:

- Informed its work by an analysis of the risk to which HIE is exposed and the annual Business Improvement and Internal Audit plan was based on this analysis. The plan was endorsed by the Risk and Assurance Committee
- Provided me with regular reports on internal audit activity and provided me with an annual report which included the Head of Business Improvement and Internal Audit's independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement. No significant control issues were noted in year
- Supported HIE's continuous improvement activities through the identification of action points arising from ongoing audit activity and from involvement in development meetings.

As part of HIE's Internal Audit programme of assurance reviews improvement opportunities have been noted including for the governance processes and communication for priority projects

The Auditor General for Scotland has appointed Audit Scotland to undertake the statutory audit of HIE. Audit Scotland have identified no significant issues as part of their audit process and have given unqualified opinions on the accounts for the year ended 31 March 2018 and on the regularity of transactions reflected in the accounts

#### **Review of effectiveness and conclusion**

As Accountable Officer, I can confirm that I am fully content with the effectiveness of HIE's existing arrangements to ensure appropriate standards of corporate governance and effective risk management. I can also confirm there were no significant control weaknesses or identified lapses in data security during the year ended 31 March 2018 and to the date of signature of the accounts.

# Remuneration and Staff Report

## Remuneration report

### Section 1 – General information

Highlands and Islands Enterprise's sponsoring body, the Scottish Government, approves changes to Highlands and Islands Enterprise's staff terms and conditions, including pay. Highlands and Islands Enterprise's pay structure covers all employees of HIE and aims to address organisational challenges such as recruitment and retention and organisational change. This ensures continuation of the modernisation process, which commenced in 2002 with the introduction of a new pay and grading structure. This structure aims to provide pay progression based on inflation rate changes, plus an element of performance-related progression linked to Highlands and Islands Enterprise's performance management system, introduced in April 2004.

### Remuneration Committee

Highlands and Islands Enterprise decided to establish a remuneration committee with effect from April 2008. The role of the Remuneration Committee is as follows:

- To review annually and agree the broad policy framework for the remuneration of the HIE Chief Executive and HIE Directors;
- To monitor and evaluate the performance, on the advice of the Chief Executive, of the HIE Directors and determine the amount or percentage of their bonus remuneration;
- To approve total payments made under such a scheme;
- To consider issues of succession planning in relation to the senior management of the organisation.
- To inform the pay remit submissions to the Scottish Government.

### Committee membership

Prof. D MacRae (Chair) (Appointed 1 April 2016)  
 Prof. L Crerar  
 Mr D Macdonald

**The information contained in the following section of this report has been subject to audit.**

### Remuneration of Board members

Board members of Highlands and Islands Enterprise are appointed by Scottish Ministers normally for a period of three years. Under certain circumstances Board members may be eligible for re-appointment for a second term. Their remuneration is set by the Scottish Government and is normally not pensionable. No benefits in kind were made to members of the Board during the year ended 31 March 2018.

Professor L Crerar was appointed the Chairman on the 20 February 2012, re-appointed 1 March 2018.

The remuneration of HIE Board members for the year ended 31 March 2018 was as follows:

	2018	2017	Appointment
	£000	£000	Expires
Prof L Crerar (Chair)	35-40	35-40	29 February 2020
Ms A Bryan	10-15	10-15	31 March 2019
Mr P Crerar CBE	10-15	10-15	31 March 2020
Mr A Dodds CBE	10-15	10-15	31 March 2020
Ms A Gray	10-15	10-15	31 March 2019
Mr D MacDonald	10-15	10-15	30 June 2018
Prof D MacRae OBE	10-15	10-15	31 March 2020
Ms I Mactaggart	10-15	10-15	30 June 2018
Mr R McIntosh CBE	10-15	10-15	31 March 2019
Ms A B Oldfield	10-15	10-15	31 March 2019
Mr W Swann	10-15	10-15	30 June 2018

The above figures represent emoluments earned as Board members during the relevant financial year. The board members above have not received any benefits in kind or any pension benefits in the last two financial years. The figure for Prof L Crerar includes £nil (2017 - £nil) of travel expenses which have been subject to tax and national insurance. The cost to HIE for contributions to the pension fund for Mr Crerar was £nil (2017 - £nil).

Highlands and Islands Enterprise is also required to meet the pension benefits due to former full-time Chairmen and Board members of Highlands and Islands Development Board who were not members of the superannuation scheme. During the year ended 31 March 2018 £91,046 (2017 - £98,607) was paid to these former members.

**Remuneration of Chief Executive**

The Chief Executive's contract of employment was signed on 7 June 2017 (Interim 27 August 2016 to 6 June 2017). This contract is a permanent contract with a 6-month notice period. No benefits in kind payments were made to the Chief Executive.

Mrs C Wright's remuneration as Chief Executive, for the year ended 31 March 2018 was as follows:

	2018	2017	2017
	Remuneration as Chief Executive	Remuneration as Chief Executive	Full Time Equivalent Wage
	£	£	£
Salary	108,395	64,712	108,181
Performance-related bonus (paid in respect of the previous financial year)	-	-	-
Pension Benefits	83,751*	51,967*	51,967
	<u>192,146</u>	<u>116,679</u>	<u>160,148</u>

Under the terms of the Chief Executive's contract of employment no annual bonus is payable.

**Remuneration of members of the HIE Leadership Team**

The contracts of members of the HIE Leadership Team are permanent and have a three-month notice period. There are no early termination payment clauses within these contracts. No benefits in kind were made to senior members of the HIE Leadership Team. All members of the HIE Leadership Team are ordinary members of the Highland and Islands Enterprise Superannuation scheme, with the exception of C Wright who is a member of the Highland Council Local Government Pension Scheme (LGPS) and D Cowan who is a member of the Strathclyde Local Government Pension Scheme (LGPS). The ordinary members of the Highlands and Islands Enterprise Superannuation scheme contribute 6.0% of pensionable salary with HIE contributing 24.9% of the employees' pensionable salary throughout the year. C Wright contributes 10% of pensionable salary to the Highland Council LGPS while D Cowan contributes 9.2% of pensionable salary to the Strathclyde LPGS. HIE contributes 20.7% to all members of the Highland Council LGPS and 18% towards the Strathclyde LGPS. All HIE and the LGPS members are in a Career Average Revalued Earning (CARE) scheme. The LGPS and the HIE scheme have a normal retirement age of 65. Further information about the pension funds can be found in the Notes to the accounts (note 17).

The remuneration of members of the HIE Leadership Team for the year ended 31 March 2018 was as follows:

	2017-18					2016-17				
	Salary	Bonus (for 16/17)	Benefits in kind	Pension Benefits	Total	Salary	Bonus (for 15/16)	Benefits in kind	Pension Benefits	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
C Wright	105-110	-	-	84+	190-195	100-105 105-110*	-	-	52	150-155 155-160*
C Buxton	85-90	-	-	20	105-110	85-90	-	-	24	110-115
D Cowan	85-90	-	-	81+	165-170	80-85	-	-	24	105-110
D J Oxley	75-80	-	-	31	105-110	40-45 70-75*	-	-	19	60-65 90-95*
N Kenton (appointed 04/07/17)	60-65 80-85*	-	-	14	75-80 90-95*	-	-	-	-	-
A Paterson (Resigned 26/08/16)	-	-	-	-	-	50-55 110-115*	-	-	22	70-75 135-140*
F C Duthie (Resigned 31/03/17)	-	-	-	-	-	85-90	-	-	19	105-110

\*Full time equivalent wage

\*Pension benefits accruing under the LGPS scheme are accrued at a higher rate than under the HIE scheme

Figures for C Wright include remuneration as Chief Executive and Director of Business and Sector Development in 2016/17

Note: In line with Government guidance on pay restraint there were no payments of performance bonuses in 2017/18.

Reporting bodies are required to disclose the relationship between the salary of the most highly paid director in their organisation and the median earnings of the organisation's workforce.

The banded salary of the most highly paid director in Highland and Islands Enterprise in the financial year 2018 was £105k-£110k (2017 £110k-£115k). This was 2.9 times (2017 3.2 times) the median salary of the workforce, which was £37,853 (2017 £35,558). Staff remuneration ranged between £17k and £108k (2017 £16k-£114k).

In 2018 no employees (2017 None) received remuneration in excess of the highest paid director.

	2017-18	2016-17
Highest Paid Director's Total	<b>£105-£110k</b>	<b>£110-£115k</b>
Median Total Remuneration	<b>37,853</b>	<b>35,558</b>
Ratio	<b>2.9</b>	<b>3.2</b>

**Retirement benefits of members of HIE Leadership Team:**

	Accrued pension at age 65 as at 31/3/18 and related lump sum	Real increase in pension and related lump sum at age 65	CETV at 31/3/18	CETV at 31/3/17	Real increase in CETV
	Bandings of £5,000	Bandings of £2,500	£000	£000	£000
C Wright	<b>45-50</b> <b>Lump sum 90-95</b>	<b>2.5-5</b> <b>Lump sum 5-7.5</b>	775	705	53
C Buxton	<b>20-25</b> <b>Lump sum 65-70</b>	<b>0-2.5</b> <b>Lump sum 2.5-5</b>	511	563	-63*
D Oxley	<b>10-15</b> <b>Lump sum 40-45</b>	<b>0-2.5</b> <b>Lump sum 2.5-5</b>	318	335	-25*
D Cowan	<b>30-35</b> <b>Lump Sum 45-50</b>	<b>2.5-5</b> <b>Lump Sum 2.5-5</b>	519	440	67
N Kenton (Appointed 04/07/17)	<b>0-5</b> <b>Lump sum 0-5</b>	<b>0-2.5</b> <b>Lump sum 0-2.5</b>	14	-	10
A L Paterson (Resigned 26/08/16)	-	-	-	618	-
F C Duthie (Resigned 31/03/17)	-	-	-	870	-

The Opening value of the CETV also includes benefits that have been transferred into the scheme

\*HIE' pension scheme trustees reviewed and updated the transfer value basis in November 2017. This meant that on average transfer values reduced for those aged 35 and over.

The Chief Executive and senior members of the HIE Leadership Team are members of the Highlands and Islands Enterprise Superannuation Scheme or the LGPS. The assets of these Career Average Revalued Earning (CARE) schemes are held separately from those of Highlands and Islands Enterprise and are invested with independent investment managers agreed by the schemes' trustees.

Highlands and Islands Enterprise meets the contributions that are necessary to meet the full balance of the cost of the benefits provided by the schemes as well as the costs of running the schemes.

Highlands and Islands Enterprise Superannuation Scheme benefits accrue at the rate of one-eightieth of pensionable salary for each year of service subject to a maximum of 40 years. In addition, a lump sum equivalent to three years' pension is payable on retirement. Normal retirement age under the scheme is 65.

LGPS, benefits accrue at one-eightieth of pensionable salary plus three-eightieth lump sum payable for service to 31 March 2009 with benefits from 1 April 2009 accruing at one-sixtieth with lump sum by commutation. Automatic lump sum service ceased accruing on 31 March 2009. Normal retirement age under the scheme is 65.

**Section 3 - Other information**

*Retirement Benefits - Cash equivalent transfer values*

A cash-equivalent transfer value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member to a particular point in time. The benefits valued are the member's benefits and any contingent spouses pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in the former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

*Real increase in CETV*

This reflects the increase in CETV effectively funded by the employer. It includes contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period but does not include the increase in accrued pension due to inflation.

## Staff Report

### Employees by sex

At the end of the financial year the number of persons of each sex was as follows:

Highlands and Islands Enterprise Staff:

	Male	Female	Total
Board*	7	5	12
Leadership Team*	3	1	4
Other employees	108	194	302

\* Mrs C Wright (Chief Executive) is included as a member of the Board in the table above. She is also a member of the Leadership Team.

HIE is committed to the Scottish Government's aspiration for public sector boards to comprise equal numbers of men and women, known as '50:50 by 2020

### Staff Numbers & Costs

	GROUP 2018			GROUP 2017		
	Permanent UK Staff	Other Staff	Total Staff	Permanent UK Staff	Other Staff	Total Staff
	£000	£000	£000	£000	£000	£000
Wages and salaries	8,083	2,954	11,037	7,990	2,979	10,969
Voluntary severance packages	-	101	101	-	-	-
Social security costs	913	311	1,224	868	306	1,174
Other pension costs	2,811	726	3,537	1,856	725	2,581
Contract/temporary staff	-	153	153	-	169	169
	<b>11,807</b>	<b>4,245</b>	<b>16,052</b>	<b>10,714</b>	<b>4,179</b>	<b>14,893</b>
Board members' remuneration	395	-	395	415	-	415
	<b>12,202</b>	<b>4,245</b>	<b>16,447</b>	<b>11,129</b>	<b>4,179</b>	<b>15,308</b>

The average number of employees was as follows:

	GROUP 2018			GROUP 2017		
	Permanent UK Staff	Other Staff	Total Staff	Permanent UK Staff	Other Staff	Total Staff
	Senior management	51	16	67	52	17
Operational staff	102	60	162	95	66	161
Administration and support staff	60	18	78	57	9	66
	<b>213</b>	<b>94</b>	<b>307</b>	<b>204</b>	<b>92</b>	<b>296</b>

The figures for 'total staff' reflect the average number of staff employed over the course of the year. In addition to permanent UK staff employed directly by HIE, the figures for other staff include staff in short-term posts and staff employed by subsidiary: Wave Energy Scotland Limited.

### Compensation and exit packages

Six staff (2017: Nil) left under voluntary severance terms between 1st April 2017 and 31 March 2018. The total cost of lump sum payments to staff was £101,514.31 (2017: Nil).

	2017-18		2016-17	
	Number of departures agreed	Total	Number of departures agreed	Total
Exit package cost band:				
< £10,000	1	£5,382	-	-
£ 10,001 - £25,000	5	£96,132	-	-
£ 25,001 - £50,000	-	-	-	-
£ 50,001 - £100,000	-	-	-	-
£100,001 - £150,000	-	-	-	-
£150,001 - £200,000	-	-	-	-
£200,001 - £250,000	-	-	-	-
	<b>6</b>	<b>£101,514</b>	<b>-</b>	<b>-</b>

Redundancy and other departure costs have been paid and approved by Scottish Ministers. Exit costs are accounted in full in the year of departure. Where HIE has agreed early retirements, the additional costs are met by HIE until the retirement date of the individual is reached.

**The information contained in the following section of this report has not been subject to audit.**

**Sickness absence**

Highlands and Islands Enterprise Staff:

The attendance record for HIE employees for the year to 31 March 2018 was 1,310 (2017 1,605) days sick leave out of a total of 62,732 (2017 64,644) possible working days representing a lost time through sickness rate of 2.09% (2017 2.48%).

**Trade union facility time**

Highlands & Islands Enterprise recognises one trade union for the purpose of collective bargaining, Public and Commercial Services Union (PCS).

We recognise the benefits of a positive and open relationship with our recognised trade union. As part of our commitment to working in partnership we offer paid facility time to our work place representatives to enable them to carry out union activities and duties. As an organisation, we derive benefits from allowing paid facility time.

There was 1 staff member who was a trade union official during 2017/18.

Percentage of working hours spent on facility time	Union officials No.
1 – 50%	<u>1</u>

The total cost of facility time amounted to 0.01% of the total pay bill, including the gross amount spent on wages, pension contributions, and national insurance contributions. 2% of the total paid facility time hours was spent on trade union activities.

**Staff Policies in respect of disabled persons**

HIE is recognised as a Disability Confident employer, and as such has reached the 2nd level of the Government’s Disability Confident Scheme which replaced the former Positive About Disabled People ‘Two Ticks’ scheme. As such, HIE has demonstrated that it has met all core criteria associated with the two following ‘themes’:-

Getting the right people for your business (7 criteria)

- actively looking to attract and recruit disabled people
- providing a fully inclusive and accessible recruitment process
- offering an interview to disabled people who meet the minimum criteria for the job
- flexibility when accessing people so disabled job applicants have the best opportunity to demonstrate that they can do the job
- proactively offering and making reasonable adjustments as required
- encouraging our suppliers and partner firms to be Disability Confident
- ensuring employees have appropriate disability equality awareness

Keeping and developing your people (6 criteria)

- promoting a culture of being Disability Confident
- supporting employees to manage their disabilities or health conditions
- ensuring there are no barriers to the development and progression of disabled staff
- ensuring managers are aware of how they can support staff who are sick or absent from work
- valuing and listening to feedback from disabled staff
- reviewing this Disability Confident employer self-assessment regularly

HIE is in the process of reviewing the criteria associated with the next and top level of the Scheme, that of Disability Confident Leader, with a view to seeking accreditation in due course. Amongst other requirements, this level requires an employer to have their self-assessment formally validated and to focus externally as well as internally, via networking with other local employers in order to promote and share best practice in this very important area.

**Diversity and equality**

HIE signed up to the Social Impact Pledge in order to increase the positive impact we make on our local community and make better use of all of our assets, whether that’s people or resources. Social impact criteria for volunteering has been incorporated into the special leave policy to help demonstrate direct benefit/community impact. As part of the pledge, HIE’s graduates also work jointly as a group on a social impact volunteering project as part of their placements. Following the success of last year’s graduate volunteering project with Abriachan Forest Trust, a local social enterprise that supports skills development for vulnerable young people, we have continued this as an integral part of the programme. This year, support has been given to the Sheiling project, a social enterprise focusing on the educational needs of young people.

Our equal pay audit demonstrates that HIE’s gender pay gap has consistently reduced since 2007 and now shows a mean gender pay gap of 14.25%. This reflects the narrowing of the gap primarily for women in higher grades. Women on average now earn more than men for the first time at Director level.

HIE’s employment equality outcomes have been refreshed to look at how we can further advance and support equality for all our employees. The organisation has also been recognised for achieving the second level of the Government’s new Disability Confident Employer Scheme.

**Proactive disclosure of information**

The HIE website contains details of HIE's publication scheme and information which we routinely publish, including approvals and Leadership team/Board minutes -

[www.hie.co.uk/publicationscheme](http://www.hie.co.uk/publicationscheme)

In addition, under the Public Services Reform (Scotland) Act 2010 we have, along with other public bodies in Scotland, a duty to publish annual public statements relating to our expenditure in the following areas:

- Public relations
- Overseas travel
- Hospitality and entertainment
- External consultancy
- Payments with a value in excess of £25,000
- Employee/members who receive remuneration in excess of £150,000.

# Parliamentary Accountability Report and Audit Report

## Parliamentary Accountability Report

The results for the year to 31 March 2018 are contained in the attached accounts which have been prepared in accordance with section 30 (1) of the Enterprise and New Towns (Scotland) Act 1990 and are in the form directed by Scottish Ministers.

### Sources of finance

Highlands and Islands Enterprise (HIE) is mainly financed by Scottish Ministers through the Scottish Government Directorate for Economic Development. In addition, however, HIE also generates additional income from rents, loan interest, European Union funding and, furthermore, generates capital receipts from loan repayments and the sale of assets.

The net expenditure for Highlands and Islands Enterprise for the year ended 31 March 2018 (excluding non-cash costs) was as follows:

#### Sources of Finance 2017-2018

	Original Budget £000	Final Budget £000	Actual £000
<b>Expenditure</b>			
Operations	50,500	76,184	76,136
Management & Admin.	15,400	15,400	15,400
<b>Total Expenditure</b>	<b>65,900</b>	<b>91,584</b>	<b>91,536</b>
<b>Income</b>			
Grant in Aid	55,700	69,530	69,530
European Union	5,000	1,117	1,117
Business Receipts	5,200	20,937	20,937
<b>Total Income</b>	<b>65,900</b>	<b>91,584</b>	<b>91,584</b>
<b>Net under spend</b>	<b>-</b>	<b>-</b>	<b>48</b>
<b>Cash Budget Outturn</b>			
Revenue Expenditure		30,030	30,007
Capital Expenditure		39,500	39,475
<b>Net spend</b>		<b>69,530</b>	<b>69,482</b>

The group outturn against the elements of the budget allocation from the Scottish Government was as follows:

<b>Resource Budget Outturn</b>		
Resource DEL	30,030	30,007
Capital DEL	39,500	39,475
Non-cash DEL cost including depreciation, provisions, property revaluation	2,047	640
<b>Total Resource budget</b>	<b>71,577</b>	<b>70,122</b>
Non-cash AME cost including pension, provisions, property revaluation	7,500	6,331
<b>Total Funding Provision</b>	<b>79,077</b>	<b>76,453</b>

### Cash Financial Budgets

HIE drew down £69.5 million of grant in aid from the Scottish Government. At the year-end HIE had an underspend of £48k.

During the year HIE invested £39.5 million in capital projects across the Highlands and Islands region which included £3.3 million on property construction and plant and equipment additions.

HIE received an additional £15.7 million in business receipts during the year. The additional receipts were from the Scottish government to fund the broadband infrastructure project

### Non-Cash Financial Budgets

The non-cash resource accounting and budget (RAB) spend was £0.6 million, £1.4 million under the provision set by the Scottish Government.

The Annually Managed Expenditure was £6.3 million against a budget of £7.5 million.

The Resource Budget for 2018/19 of £71.6 million awarded by the Scottish Government comprises Grant-in-Aid and 'non-cash' budget provision. This is deemed to be adequate for HIE to continue for the foreseeable future.

**Losses and claims waived**

Due to the high-risk nature of its investments, there are occasions when Highlands and Islands Enterprise is required to write off balances which are no longer recoverable.

	<b>Group No of Cases</b>	<b>£000</b>	<b>HIE No of Cases</b>	<b>£000</b>
Financial Asset losses (losses arising from the disposal of financial assets)	2	2,173	2	2,173
Claims waived (amounts written off)	<b>18</b>	<b>1,705</b>	<b>18</b>	<b>1,705</b>

Group claims waived contain a number of historic debts inherited by HIE from the LEC's which were valued at a higher value in the group than HIE

In the year to 31 March 2018 there was 2 (2017 - 2) financial asset loss which exceeded £250,000.

	2018
	£000
Wind Towers Scotland Limited	510
Accunostics Limited	1,663

In the year to 31 March 2018 there was 2 (2017 - 2 case) claims waived which exceeded £250,000.

	2018
	£000
Skykon Campbelltown Limited	270
Accunostics Limited	1,403

Highlands and Islands Enterprise continues to pursue all outstanding debts.

**Fees and charges**

As required in the Fees and Charges guidance in the Scottish Public Finance Manual, Highlands and Islands Enterprise charges market rates whenever applicable.

*C Wright*  
Highlands and Islands Enterprise

Date 13 August 2018

# Independent Auditor's Report

## Independent auditor's report to the members of Highlands and Islands Enterprise, the Auditor General for Scotland and the Scottish Parliament

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### Report on the audit of the financial statements

#### Opinion on financial statements

I have audited the financial statements in the annual report and accounts of Highlands and Islands Enterprise and its group for the year ended 31 March 2018 under the Enterprise and New Towns (Scotland) Act 1990. The financial statements comprise the Group and Highlands and Islands Enterprise Statement of Comprehensive Net Expenditure, the Group and Highlands and Islands Enterprise Statement of Financial Position, the Group and Highlands and Islands Enterprise Statement of Cash Flows, the Group Statement of Changes in Taxpayers' Equity, the Highlands and Islands Enterprise Statement of Changes in Taxpayers' Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2017/18 Government Financial Reporting Manual (the 2017/18 FReM).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers of the state of the affairs of the body and its group as at 31 March 2018 and of the net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 FReM; and
- have been prepared in accordance with the requirements of the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers.

#### Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the body and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the body has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accountable Officer is responsible for assessing the ability of the body and its group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

#### Auditor's responsibilities for the audit of the financial statements

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

### **Other information in the annual report and accounts**

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration and Staff Report, and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### **Report on regularity of expenditure and income**

#### **Opinion on regularity**

In my opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

#### **Responsibilities for regularity**

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. I am responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

### **Report on other requirements**

#### **Opinions on matters prescribed by the Auditor General for Scotland**

In my opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers.

#### **Matters on which I am required to report by exception**

I am required by the Auditor General for Scotland to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

**Gordon Smail  
Audit Director  
Audit Scotland  
4th Floor  
102 West Port  
Edinburgh  
EH3 9DN**

**14 August 2018**

## Group and Highlands and Islands Enterprise Statement of Comprehensive Net Expenditure for the year ended 31 March 2018

	Notes	Group		HIE	
		2018	2017	2018	2017
		£000	£000	£000	£000
<b>Expenditure</b>					
Operating expenditure	4	73,374	77,998	73,906	79,953
Net management expenditure on staff costs	5	12,202	11,129	11,502	10,518
Other management expenditure	5	7,140	4,699	6,520	3,935
Depreciation and amortisation	5	1,037	1,001	1,037	1,000
		<u>93,753</u>	<u>94,827</u>	<u>92,965</u>	<u>95,406</u>
<b>Income</b>					
Income from activities	3	(3,829)	(3,570)	(3,708)	(3,570)
Other income	3	(15,703)	(23,463)	(15,423)	(23,685)
		<u>(19,532)</u>	<u>(27,033)</u>	<u>(19,131)</u>	<u>(27,255)</u>
<b>Net Operating Expenditure from activities</b>		<b>74,221</b>	<b>67,794</b>	<b>73,834</b>	<b>68,151</b>
<b>Net Operating Expenditure</b>		<b>74,221</b>	<b>67,794</b>	<b>73,834</b>	<b>68,151</b>
Interest payable and similar charges	7	63	7	63	7
Share of (profits)/losses in equity accounted investees	10	(1,534)	90	-	-
Income from investments	6	-	-	-	-
Interest receivable	6	(134)	(124)	(134)	(123)
Other finance charges/(income)	6	1,426	1,214	1,426	1,214
<b>Net Expenditure after interest</b>		<b>74,042</b>	<b>68,981</b>	<b>75,189</b>	<b>69,249</b>
Taxation	8	123	105	123	105
<b>Net expenditure after taxation</b>		<b>74,165</b>	<b>69,086</b>	<b>75,312</b>	<b>69,354</b>
Minority interests		26	(12)	-	-
<b>Net Expenditure</b>		<b>74,191</b>	<b>69,074</b>	<b>75,312</b>	<b>69,354</b>
<b>Other Comprehensive Expenditure/(Income)</b>					
<b>Items that will not be reclassified to Net Expenditure</b>					
Net (gains)/losses on revaluation of property, plant and equipment		9	(19)	9	(19)
Net (gains)/losses on revaluation of property, plant and equipment by equity accounted investee		-	-	-	-
Actuarial (gains)/losses recognised in retirement benefit scheme	17	(18,519)	18,917	(18,519)	18,917
<b>Items that may be reclassified to Net Expenditure</b>					
(Gains)/ losses in revaluation of available for sales assets	11	210	(325)	210	(325)
Reclassification to net expenditure in the year		-	-	-	-
<b>Other Comprehensive Expenditure/(Income) for the year</b>		<b>(18,300)</b>	<b>18,573</b>	<b>(18,300)</b>	<b>18,573</b>
<b>Total Comprehensive Net Expenditure/(Income) for the year</b>		<b>55,891</b>	<b>87,647</b>	<b>57,012</b>	<b>87,927</b>

## Group and Highlands and Islands Enterprise Statement of Financial Position as at 31 March 2018

	Notes	GROUP		HIE	
		2018	2017	2018	2017
		£000	£000	£000	£000
<b>Non-current assets</b>					
Property, plant and equipment	9	39,421	41,243	39,411	41,225
Intangible Assets		-	-	-	-
Financial Assets	10	2,611	2,727	2,971	3,062
Investment in associate	10	1,796	262	-	-
<b>Total non-current assets</b>		<b>43,828</b>	<b>44,232</b>	<b>42,382</b>	<b>44,287</b>
<b>Current Assets</b>					
Trade and other receivables	12	8,973	8,861	8,307	8,730
Cash and cash equivalents	13	2,393	4,817	1,365	2,930
Assets classified as held for sale	14	525	813	525	813
<b>Total current assets</b>		<b>11,891</b>	<b>14,491</b>	<b>10,197</b>	<b>12,473</b>
<b>Total Assets</b>		<b>55,719</b>	<b>58,723</b>	<b>52,579</b>	<b>56,760</b>
<b>Current Liabilities</b>					
Trade payables and other current liabilities	15	(13,817)	(13,306)	(13,265)	(12,791)
Taxation	15	(477)	(467)	(319)	(302)
<b>Total current Liabilities</b>		<b>(14,294)</b>	<b>(13,773)</b>	<b>(13,584)</b>	<b>(13,093)</b>
<b>Non-current assets plus net current assets less current liabilities</b>		<b>41,425</b>	<b>44,950</b>	<b>38,995</b>	<b>43,667</b>
<b>Non-current liabilities</b>					
Trade payables and other liabilities	16	(1,567)	(1,463)	(1,567)	(1,463)
Retirement benefit obligation	17	(39,019)	(56,313)	(39,019)	(56,313)
<b>Total Non-current liabilities</b>		<b>(40,586)</b>	<b>(57,776)</b>	<b>(40,586)</b>	<b>(57,776)</b>
<b>Assets less Liabilities</b>		<b>839</b>	<b>(12,826)</b>	<b>(1,591)</b>	<b>(14,109)</b>
<b>Tax Payers' Equity</b>					
Revaluation reserve		397	396	397	396
Other reserve		136	356	133	353
Pension reserve		(39,019)	(56,313)	(39,019)	(56,313)
Minority Interests		398	372	-	-
General reserve		38,927	42,363	36,898	41,455
		<b>839</b>	<b>(12,826)</b>	<b>(1,591)</b>	<b>(14,109)</b>

C Wright  
Highlands and Islands Enterprise

Date 13 August 2018

The Accountable Officer authorised these financial statements for issue on 13 August 2018

## Group and Highlands and Islands Enterprise Statement of Cash Flows for the year ended 31 March 2018

	Notes	Group		HIE	
		2018 £000	2017 £000	2018 £000	2017 £000
<b>Cash flow from operating activities</b>					
Profit/(Loss) before Taxation	18	(72,840)	(68,067)	(73,807)	(68,154)
Share of Associates profit/(loss)	10	(1,534)	90	-	-
Depreciation	5	1,037	1,001	1,036	1,000
Surplus on disposal of assets	3	225	299	45	119
Amortisation of Intangibles		-	-	-	-
Dividend income	6	-	-	-	-
Interest income	6	(134)	(123)	(134)	(123)
Interest expense	7	63	7	63	7
		<b>(73,183)</b>	<b>(66,793)</b>	<b>(72,797)</b>	<b>(67,151)</b>
(Increase)/decrease in trade and other receivables		(732)	331	(201)	1,015
Provision for irrecoverable debts & losses		(111)	(52)	(111)	(42)
(Increase)/decrease in Inventories		-	-	-	-
Increase/(decrease) in trade and other payables		1,416	618	1,427	1,065
Movement in pension provision		(201)	(71)	(201)	(71)
Investments written off, net of provision		1,330	(344)	1,330	(344)
Loss/(profit) on sale of property, plant & equipment		(45)	(119)	(45)	(119)
Loss/(profit) on sale of assets classified as held for sale		(221)	(183)	(181)	(183)
Surplus of investments		(191)	-	(95)	-
Revaluation of assets property plant & equipment		3,682	5,088	3,675	5,076
Movement in deferred income		(19)	(17)	(17)	(17)
<b>Cash outflow from operating activities</b>		<b>(68,275)</b>	<b>(61,542)</b>	<b>(67,216)</b>	<b>(60,771)</b>
Taxes paid		-	-	-	-
<b>Net cash outflow from operating activities</b>		<b>(68,275)</b>	<b>(61,542)</b>	<b>(67,216)</b>	<b>(60,771)</b>
<b>Net cash outflow from operating activities - Continuing operations</b>		<b>(68,275)</b>	<b>(61,542)</b>	<b>(67,216)</b>	<b>(60,771)</b>
<b>Net cash outflow from operating activities - Discontinued operations</b>		-	-	-	-
<b>Cash flows from investing activities</b>					
Payments to acquire shares		-	(40)	-	(40)
Payments for the construction of property		(3,343)	(5,172)	(3,343)	(5,171)
Payments to acquire plant & equipment		13	(679)	(25)	(679)
Purchase of assets classified as held for sale		-	-	-	-
Proceeds from sale of plant, property and equipment		57	711	57	711
Proceeds from sale of assets classified as held for sale		901	2,316	901	2,316
Receipts from sale of shares		257	60	95	-
Loans advanced	10	(2,535)	(1,189)	(2,535)	(1,189)
Loans repaid	10	917	1,158	917	1,158
Interest received		117	93	117	93
Dividends received		-	-	-	-
<b>Net cash from investing activities</b>		<b>(3,616)</b>	<b>(2,742)</b>	<b>(3,816)</b>	<b>(2,801)</b>
<b>Net cash from investing activities - Continuing operations</b>		<b>(3,616)</b>	<b>(2,742)</b>	<b>(3,816)</b>	<b>(2,801)</b>
<b>Net cash from investing activities - Discontinued operations</b>		-	-	-	-
<b>Cash flows from financing activities</b>					
Grant in aid		69,530	61,761	69,530	61,761
Debenture Loan repayments		-	-	-	-
Interest paid	7	(63)	(7)	(63)	(7)
<b>Net cash from financing activities</b>		<b>69,467</b>	<b>61,754</b>	<b>69,467</b>	<b>61,754</b>
<b>Net cash from financing activities - Continuing operations</b>		<b>69,467</b>	<b>61,754</b>	<b>69,467</b>	<b>61,754</b>
<b>Net cash from financing activities - Discontinued operations</b>		-	-	-	-
<b>Net increase/(decrease) in cash and cash equivalents</b>	13	<b>(2,424)</b>	<b>(2,530)</b>	<b>(1,565)</b>	<b>(1,818)</b>
<b>Cash and cash equivalents at beginning of period</b>	13	<b>4,817</b>	<b>7,347</b>	<b>2,930</b>	<b>4,748</b>
<b>Cash and cash equivalents at end of period</b>	13	<b>2,393</b>	<b>4,817</b>	<b>1,365</b>	<b>2,930</b>

## Group Statement of Changes in Taxpayers' Equity for the year ended 31 March 2018

	Revaluation reserve	Other reserve	Pension reserve	Minority Interest	General reserve	Total reserves
	£000	£000	£000		£000	£000
<b>Balance at 31 March 2016</b>	<b>402</b>	<b>6</b>	<b>(36,253)</b>	<b>384</b>	<b>48,533</b>	<b>13,072</b>
Adjustments	-	-	-	-	-	-
<b>Balance at 31 March 2016</b>	<b>402</b>	<b>6</b>	<b>(36,253)</b>	<b>384</b>	<b>48,533</b>	<b>13,072</b>
<b>Changes in Taxpayers' equity for 2016-17</b>						
Net gain/(loss) on revaluation of property, plant and equipment	(6)	25				19
Net gain/(loss) on revaluation of intangible assets						-
Net gain/(loss) on investments		325				325
Grants received in year						-
Release of reserves to the I&E						-
Equity accounted investees						-
Transfers between reserves (IAS19)			(1,143)		1,143	-
Actuarial Gain/(loss)			(18,917)			(18,917)
Retained Surplus/Deficit				(12)	(69,074)	(69,086)
<b>Total recognised income and expense for 2016-17</b>	<b>(6)</b>	<b>350</b>	<b>(20,060)</b>	<b>(12)</b>	<b>(67,931)</b>	<b>(87,659)</b>
Grant from Scottish Government					61,761	61,761
<b>Balance at 31 March 2017</b>	<b>396</b>	<b>356</b>	<b>(56,313)</b>	<b>372</b>	<b>42,363</b>	<b>(12,826)</b>
<b>Changes in Taxpayers' equity for 2017-18</b>						
Net gain/(loss) on revaluation of property, plant and equipment	1	(10)				(9)
Net gain/(loss) on revaluation of intangible assets						-
Net gain/(loss) on investments		(210)				(210)
Grants received in year						-
Release of reserves to the I&E						-
Equity accounted investees						-
Transfers between reserves (IAS19)			(1,225)		1,225	-
Actuarial Gain/(loss)			18,519			18,519
Retained Surplus/Deficit				26	(74,191)	(74,165)
<b>Total recognised income and expense for 2017-18</b>	<b>1</b>	<b>(220)</b>	<b>17,294</b>	<b>26</b>	<b>(72,966)</b>	<b>(55,865)</b>
Grant from Scottish Government					69,530	69,530
<b>Balance at 31 March 2018</b>	<b>397</b>	<b>136</b>	<b>(39,019)</b>	<b>398</b>	<b>38,927</b>	<b>839</b>

Revaluation reserve is the cumulative unrealised balance arising on revaluation adjustments to assets.

Other reserves are the balance arising on unrealised gains from the revaluation of assets not included within the revaluation reserve £18k (2017 £28k), the share of equity accounted investee reserves £3k (2017 £3k) and a decrease in fair value of available for sale unlisted equity shares £115k (2017 £325k).

Pension reserve is the accumulated deficit arising from the HIE pension plan.

General reserve is the accumulated surplus on grant in aid funded activity by HIE.

## Highlands and Islands Enterprise Statement of Changes in Taxpayers' Equity for the year ended 31 March 2018

	Revaluation reserve	Other reserve	Pension reserve	General reserve	Total reserves
	£000	£000	£000	£000	£000
<b>Balance at 31 March 2016</b>	<b>402</b>	<b>3</b>	<b>(36,253)</b>	<b>47,905</b>	<b>12,057</b>
Adjustments	-	-	-	-	-
<b>Balance at 31 March 2016</b>	<b>402</b>	<b>3</b>	<b>(36,253)</b>	<b>47,905</b>	<b>12,057</b>
<b>Changes in Taxpayers' equity for 2016-17</b>					
Net gain/(loss) on revaluation of property, plant and equipment	(6)	25			19
Net gain/(loss) on revaluation of intangible assets					-
Net gain/(loss) on investments		325			325
Grants received in year					-
Release of reserves to the I&E					-
Equity accounted investees					-
Transfers between reserves (IAS19)			(1,143)	1,143	-
Actuarial Gain/(loss)			(18,917)		(18,917)
Retained Surplus/Deficit				(69,354)	(69,354)
<b>Total recognised income and expense for 2016-17</b>	<b>(6)</b>	<b>350</b>	<b>(20,060)</b>	<b>(68,211)</b>	<b>(87,927)</b>
Grant from Scottish Government				61,761	61,761
<b>Balance at 31 March 2017</b>	<b>396</b>	<b>353</b>	<b>(56,313)</b>	<b>41,455</b>	<b>(14,109)</b>
<b>Changes in Taxpayers' equity for 2017-18</b>					
Net gain/(loss) on revaluation of property, plant and equipment	1	(10)			(9)
Net gain/(loss) on revaluation of intangible assets					-
Net gain/(loss) on investments		(210)			(210)
Grants received in year					-
Release of reserves to the I&E					-
Equity accounted investees					-
Transfers between reserves (IAS19)			(1,225)	1,225	-
Actuarial Gain/(loss)			18,519		18,519
Retained Surplus/Deficit				(75,312)	(75,312)
<b>Total recognised income and expense for 2017-18</b>	<b>1</b>	<b>(220)</b>	<b>17,294</b>	<b>(74,087)</b>	<b>(57,012)</b>
Grant from Scottish Government				69,530	69,530
<b>Balance at 31 March 2018</b>	<b>397</b>	<b>133</b>	<b>(39,019)</b>	<b>36,898</b>	<b>(1,591)</b>

Revaluation reserve is the cumulative unrealised balance arising on revaluation adjustments to assets.

Other reserves are the balance arising on unrealised gains from the revaluation of assets not included within the revaluation reserve £18k (2017 £38k) and the increase in fair value of available for sale unlisted equity shares £115k (2017 £325k).

Pension reserve is the accumulated deficit arising from the HIE pension plan.

General reserve is the accumulated surplus on grant in aid funded activity by HIE.

## Notes to the Accounts

### 1. Accounting policies

**Basis of preparation** The financial statements have been prepared in accordance with the 2017-18 Government Financial Reporting Manual (FRoM) and Accounts Direction issued by Scottish Ministers, in accordance with Section 30(1) of the Enterprise and New Towns (Scotland) Act 1990

The accounting policies contained in the FRoM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public-sector context. Where FRoM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Highlands & Islands Enterprise for the purpose of giving a true and fair view has been selected. The particular policies adopted by Highlands & Islands Enterprise are described below. They have been applied consistently in dealing with the items that are considered material to the accounts.

The accounts are prepared under the historical cost convention, except that the following assets and liabilities are stated at fair value:

property (note 9)  
financial assets (note 10)  
assets classified as held for sale (note 14)  
financial commitments (note 20)

The consolidated financial statements are presented in UK pounds sterling and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

**Going Concern** The financial statements for the year ended 31 March 2018 show net liabilities position of £1.6m (2017 £14.1m), Group £0.8m net assets (2017 £12.8 net liabilities). The position of net liabilities has arisen following an increase in the HIE pension fund deficit. Net current liabilities will be funded by the Scottish Government as they arise. Therefore, the financial statements have been prepared on a going concern basis.

The Board and Accountable Officer have considered HIE's Operating Plan requirement and consider that the Resource budget awarded by the Scottish Government is adequate.

**Basis of consolidation** The Group Accounts include the accounts of Highlands and Islands Enterprise and all its subsidiary and associate undertakings and joint arrangements drawn up to 31 March each year unless otherwise noted.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control over their financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

On consolidation, inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary and material to ensure consistency with the policies adopted by the Group.

(b) Associates and joint arrangements

Associates are entities over which the Group has significant influence but not control. Companies whose business is compatible with the objectives of the Group, in which the holdings are intended to be retained as long-term investments and in which the Group has active management involvement are treated as associated undertakings.

Joint arrangements are those entities over whose activities the Group has joint control, established by contractual agreements and requiring unanimous consent for strategic financial and operational decisions.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's investments include goodwill identified on acquisition, net of any accumulated impairment losses. The Group accounts include the Group's share of the profit and equity movements of equity accounted investees, after adjustments to align the accounting policies of those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(c) Other

In respect of other invested companies, Highlands and Islands Enterprise considers that in general, the role of the Group is normally that of a passive investor and that investment holdings taken will be disposed of at the earliest opportunity. Highlands and Islands Enterprise's role is to provide funding, primarily alongside venture capital co-investment partners, to individual companies to drive economic growth in Scotland. Other investments which are not considered subsidiaries, joint arrangements or associates are recorded at historic cost, fair value or amortised

cost as appropriate.

**Critical accounting estimates and judgements**

The preparation of the accounts in conformity with IFRS requires the Board and Accountable Officer to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Information about critical judgements in applying accounting policies, that have the most significant effects on the amounts recognised in the accounts, is as follows:

*(a) Retirement benefit obligations*

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost or income for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of retirement benefit obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement benefit obligations. The Group also determines the appropriate rate for salary inflation based on consideration of inflation and long-term assumptions in respect of salary increases. Other key assumptions for retirement benefit obligations are based in part on current market conditions. Additional information is disclosed in Note 17.

*(b) Fair value of financial instruments*

The fair value of financial instruments that are not traded in an active market is determined by using judgement and assumptions that are mainly based on market conditions existing at each statement of financial position date.

*(c) Held-to-maturity investments*

The Group follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for specific circumstances explained in IAS 39, it will be required to reclassify the whole class as available-for-sale. The investments would then be measured at fair value not amortised cost.

*(d) Impairment of available-for-sale financial assets*

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

**Accounting for grant-in-aid**

Highlands and Islands Enterprise receives grant-in-aid from Scottish Ministers to finance its capital expenditure and the excess of its expenditure over income. Grant-in-aid is credited to general reserves and the net expenditure charged to this reserve.

**European Union funding and other grants**

European Union funding and other grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. All grants recognised are credited to the statement of comprehensive net expenditure in the year in which they are recognised.

**Income**

Income from assets sold is recognised when the risks and rewards of ownership have been transferred to a third party. Revenue from goods and services are recognised in the period for which the goods and services provided relate to.

Revenue grants and partners' contributions to projects are recognised in the period to which they relate.

**Expenditure**

Grant expenditure is accounted for as it is approved for payment. Goods and services expenditure is recognised in the period to which they relate

**Property, Plant & Equipment**

HIE has 4 categories of property, plant and equipment:

- Land and buildings
- Tenants' improvements
- Plant & Equipment
- IT equipment

As land and buildings are primarily held by HIE for economic development purposes, in accordance with the FReM, the principles of IAS 16 'Property, Plant & Equipment' are followed.

Property, plant and equipment are included in the statement of financial position at their Current Value and non-property assets with a short economic useful life are carried at depreciated historic cost.

For non-property assets HIE capitalises any purchases for individual items over £5,000 where the purchase is

expected to have a useful life greater than one year. In line with IAS 16, for property, HIE capitalises any costs directly attributable to bringing the property to the condition necessary for it to be used in the manner intended; this includes professional fees incurred but excludes any costs of a repair or maintenance nature.

Depreciation is provided on all property, plant and equipment other than freehold land and Assets Under Construction, on a straight-line basis over their expected useful lives, as follows:

Buildings – structure: 15-60 years  
Buildings – engineering: 15-45 years  
Buildings – specialist engineering: 15-45 years

Plant & Equipment: 3-40 years

Tenants' Improvements: 10 years

IT equipment: 4 years

The Current Value for completed property is based on the open market value as defined by the guidance notes issued by the Royal Institution of Chartered Surveyors. Professional external valuations are carried out annually.

Assets Under Construction are shown at impaired cost. This recognises the costs of construction with an allowance made for a proportion of the expected impairment of these on completion, based on the degree of completion at the year end. This adjustment is considered necessary to reflect the fact that the market values of Assets Under Construction are less than the cost. This arises as one of the purposes of HIE's property function is to address market failure. Once completed and ready for use, these assets are reclassified as either land and buildings held for regeneration purposes or for own use, and accounted for accordingly.

Deficits arising on revaluation are charged to the Statement of Comprehensive Net Expenditure, although this is first offset against any revaluation reserve in respect of that property. Surpluses on revaluation are credited to a revaluation reserve after eliminating any accumulated deficit originally charged to the Statement of Comprehensive Net Expenditure in accordance with IAS 16.

<b>Financial Assets - Equity</b>	Equity instruments have been classified as Available for Sale financial assets and are shown at Fair Value in accordance with IFRS13. A review of the Share Agreements and Articles of Association of the Investee companies was carried out for all HIE's Investments to establish the correct classification of each. As there is no active market in most of HIE's investments, Fair Value has been determined internally using valuation techniques. The valuation techniques adopted include the price of recent transactions at arm's length and Net Assets based valuations. Other valuation methods were not considered appropriate due to a lack of market place comparable for HIE's equity. Decreases in the Fair Values have been charged to the Statement of Comprehensive Net Expenditure as these are considered to be impairment losses. A fair value hierarchy is used to categorise into three levels the inputs to valuation techniques used to measure fair value. All HIE's Available for Sale financial assets are categorised as Level 3 due to unobservable inputs.
<b>- Loans and receivables</b>	Loans and receivables are financial assets with fixed or determinable payments and are carried at amortised cost using the effective interest method. This includes preference shares which have the right to a dividend stream and redemption of the shares at a given point in time. Where the redemption date has passed, it was assumed in the amortised cost calculations, that the redemption date would take place in a year's time. The amortised cost valuations were then reviewed and impairment considered, using information obtained from the monitoring and account management process. Movements in amortised cost are recognised in the Statement of Comprehensive Net Expenditure and impairment provided for where the amortised cost valuation is not considered to reflect a true and fair view. These impairments are effectively measured as the difference between the amortised cost and the discounted present value of estimated future cash flows.
<b>Intangible Assets</b>	Goodwill Goodwill arising on the purchase of subsidiaries is recognised at fair value on acquisition. Amortisation is calculated on a straight-line basis over a period of 5 years.
<b>Assets classified as held for sale</b>	Assets classified as held for sale have been accounted for in accordance with International Financial Reporting Standard (IFRS) 5. These relate to properties and financial assets which have been approved for sale with a willing buyer and where the sale is expected to be completed during the next 12 months and are shown at Open Market Value with an allowance made for legal costs related to the sales.
<b>Irrecoverable income</b>	Irrecoverable debts are written off at the earliest opportunity. Provision is made for debts which are considered unlikely to be recovered.
<b>Lease commitments</b>	Highlands & Islands Enterprise has entered into commercial property leases as lessor on its property portfolio and as lessee when it obtains the use of property, plant and equipment. The classification of such leases as operating or financial lease requires the group to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets. Assets acquired under finance leases are capitalised in the Statement of Financial Position and depreciated over their useful lives. The interest element of the rental obligations is charged to the Statement of Comprehensive Net Expenditure over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Rentals paid under operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight-line basis over the life of the lease.
<b>Research expenditure</b>	All research expenditure is charged in the year it occurs.
<b>Insurance</b>	In line with central government policy, Highlands and Islands Enterprise and its subsidiary companies bear their

	own liability for all risks except for statutory obligations.
<b>Taxation</b>	The companies in the HIE group are subject to corporation tax on their annual surplus as computed for taxation purposes. HIE and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned. Provision is made for deferred taxation only when material liabilities are expected to arise in the foreseeable future. Provision for Corporation tax is made on gains, profits and losses, as computed for tax purposes, arising from business activities. The tax computations for all periods ending before 31 March 2016 have been agreed with the relevant tax authorities.
<b>Employee Benefits</b>	<p><b>Retirement Benefits</b> Most staff are members of the Highlands and Islands Enterprise superannuation scheme or local government pension funds. The Highlands and Islands Enterprise superannuation scheme provides benefits based on career average salary. The assets of the scheme are held separately from those of Highlands and Islands Enterprise and are invested with independent investment managers agreed by the scheme's trustees. The local government pension funds are defined benefit schemes, the assets of which are held in independently administered funds.</p> <p>On the advice of independent qualified actuaries, contribution payments are made to the plans to ensure that the plans' assets are sufficient to cover future liabilities. Pension plan assets are measured using market values. Pension plan liabilities are measured using the projected unit method and discounted by the yield available on long-dated, high quality corporate bonds. Any increase in the present value of the liabilities of the defined benefit pension plans expected to arise from employee service in the period is charged against operating surplus.</p> <p>The expected return on the plans' assets and the increase during the period in the present value of the plans' liabilities arising from the passage of time are included in investment income. Actuarial gains and losses are recognised in the statement of changes in tax payers' equity.</p> <p>Additional information is disclosed in note 17.</p> <p><b>Short term employee benefits</b> A liability and an expense is recognised for holiday days, holiday pay, bonuses and other short-term benefits when the employees render service that increases their entitlement to these benefits. As a result, an accrual has been made for holidays earned but not taken. Accruals are recognised for material amounts in respect of holidays, holiday pay, bonuses and other short-term benefits earned but not taken or paid at the Statement of Financial Position date.</p>
<b>Trade receivables and payables</b>	All commercial and trade sums due and payable (Receivables and Payables) are stated at fair value.
<b>Cash and cash equivalents</b>	Cash and cash equivalents includes deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.
<b>Provisions</b>	<p>Provisions are recognised when the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.</p> <p>Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.</p> <p>Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.</p>
<b>Accounting standards issued but not yet adopted</b>	<p>A number of new accounting standards have been issued but have not yet been applied by the group in these financial statements. The standards that are considered relevant to the group and the anticipated impact on the consolidated accounts are as follows:</p> <p><b>IFRS 9 – Financial Instruments</b> Subject to EU adoption and Exposure Draft process this standard will be included in the FReM with effect from 2018/19. The standard replaces IAS 39 Financial Instruments: Recognition and Measurement and brings together all aspects of accounting for financial instruments. The impact on the consolidated accounts has not been determined.</p> <p><b>IFRS 15 – Revenue from Contracts with Customers</b> Subject to EU adoption and Exposure Draft process this standard will be included in the FReM with effect from 2018/19. This standard establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The new revenue standard will supersede all current revenue recognition requirements under IFRS. The impact on the consolidated accounts has not been determined.</p> <p><b>IFRS 16 – Leases</b> Subject to EU adoption and Exposure Draft process this standard will be included in the FReM with effect from 2019/20. The standard replaces IAS 17 - Leases and largely removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. This is a significant change in lessee accounting. The impact on the consolidated accounts has not been determined.</p>

IFRS 2 – Share based payment

Subject to EU adoption and Exposure Draft process this standard will be included in the FReM with effect from 2018/19. Updates to this standard revise the process for classification and measurement of share based payment transactions. The impact on the consolidated accounts has not been determined.

IAS 12 – Income Taxes

Subject to EU adoption and Exposure Draft process this standard will be included in the FReM with effect from 2018/19. Updates to this standard revise the process for recognition of deferred tax assets for unrealised losses. The impact on the consolidated accounts has not been determined.

IAS 28 – Investment in associates and joint ventures

Subject to EU adoption and Exposure Draft process this standard will be included in the FReM with effect from 2018/19. Updates to this standard revise the process for classification and measurement of long term interests in associates and joint ventures. The impact on the consolidated accounts has not been determined.

IAS 40 – Investment Property

Subject to EU adoption and Exposure Draft process this standard will be included in the FReM with effect from 2018/19. Updates to this standard clarify the process for transfers of property to or from investment properties. The impact on the consolidated accounts has not been determined.

## 2. Segmental Information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the chief operating decision maker in order to allocate resources.

The following table presents the revenue and profit information regarding HIE's operating segments for the years ended 31 March 2017 and 2018 based on the management information produced, a further table is presented reconciling the segmental information provided for HIE to the group net operating cost before taxation.

The management information used by HIE's Board and Leadership Team is focused on cash income and expenditure. Income is presented by funding source. Expenditure reflects the primary areas of investment and business support provided by HIE. HIE does not record or report assets and liabilities by operating segments or primary areas of investment.

	<b>HIE</b>	
	<b>2018</b>	2017
	<b>£000</b>	<b>£000</b>
<b>Income</b>		
Grant In Aid	69,530	63,761
European		
SDB Projects	1,117	1,242
	<u>1,117</u>	<u>1,242</u>
Capital		
Loan Repayments	917	1,158
Equity Sales	95	-
Property Sales	957	3,027
	<u>1,969</u>	<u>4,185</u>
Revenue		
Property Rental	3,370	3,266
Loan interest/Dividend	147	98
Other income	14,876	21,203
Other Receipts	575	117
	<u>18,968</u>	<u>24,684</u>
Other Income	22,054	30,111
<b>Total Income</b>	<u>91,584</u>	<u>93,872</u>
<b>Expenditure</b>		
Block A		
Regional Significant Investments	35,382	29,697
Business Support	7,056	4,928
Growth Investment	20,179	20,291
Broadband	10,300	18,896
Total Block A	<u>72,917</u>	<u>73,812</u>
SDB Projects	1,117	1,242
Other expenditure	2,102	2,306
<b>Total Block A</b>	<u>76,136</u>	<u>77,360</u>
Block B		
Management, staff & Admin cost	15,400	14,497
<b>Total Block B</b>	<u>15,400</u>	<u>14,497</u>
<b>Total Expenditure</b>	<u>91,536</u>	<u>91,857</u>
<b>Support for government initiatives</b>	-	2,000
<b>Financial Position (I&amp;E)</b>	<u>48</u>	<u>15</u>
<b>Reconciliation to Group net operating cost before taxation:</b>		
<b>Financial position (I&amp;E)</b>	<b>48</b>	<b>15</b>
Pension (IAS19)	(1,225)	(1,143)
Depreciation	(1,036)	(1,000)
Provisions & charges	403	13
Accruals & Prepayments	1,105	(1,496)
Property cost of sales	(357)	(250)
Capital revaluation and additions	(1,654)	1,483
Grant in aid	(59,752)	(56,961)
Taxation	(2,921)	(1,910)
Transfers from revaluation reserve	-	-
HIE Ventures Limited	76	(32)
Wave Energy Scotland	(10,246)	(7,632)
Associate companies	1,534	(90)
Consolidation adjustments	(17)	22
<b>Group net operating cost before taxation</b>	<u>(74,042)</u>	<u>(68,981)</u>

### 3. Income from operating activities

Income, which is shown net of Value Added Tax (VAT), is made up of receipts from various bodies as detailed below:

	GROUP		HIE	
	2018 £000	2017 £000	2018 £000	2017 £000
Income from Activities				
Property Rentals	3,388	3,271	3,388	3,271
Gain/(loss) on financial assets at fair value	(1)	-	-	-
Surplus/(loss) on disposal of property	225	299	225	299
Surplus/(loss) on disposal of investments	217	-	95	-
	<b>3,829</b>	<b>3,570</b>	<b>3,708</b>	<b>3,570</b>
Other Income				
Other European contributions	1,206	880	1,206	880
Scottish Government receipts	11,001	19,595	10,501	19,595
Other external income	3,496	2,988	3,716	3,210
	<b>15,703</b>	<b>23,463</b>	<b>15,423</b>	<b>23,685</b>

### 4. Expenditure on operating activities

Expenditure is shown net of Value Added Tax (VAT) except where the VAT is irrecoverable.

	Regional significant Investments £000	Business Support £000	Growth Investment £000	Total £000	2017 £000
Highlands and Islands Enterprise	32,164	11,781	18,629	62,574	70,072
Community Broadband	1,531	-	-	1,531	1,883
Wave Energy Scotland	9,269	-	-	9,269	6,043
HIE Ventures Limited	-	-	-	-	-
<b>Group</b>	<b>42,964</b>	<b>11,781</b>	<b>18,629</b>	<b>73,374</b>	<b>77,998</b>
2017	47,686	10,736	19,576	77,998	

\* Local Enterprise Companies (LEC's) are dormant, HIE delivery continues through its area teams.

Expenditure includes grants of **£27,255,044** (2017 - £29,223,836) of which **£2,254,714** (2017- £1,901,208) were made to the public sector and **£25,000,330**(2017 - £27,322,628) to the private sector.

Property revaluation and management costs of **£3,684,586** (2017 - £5,976,337) are included within Business Support expenditure above.

### 5a. Administration and management charges by organisation

	GROUP	
	2018 £000	2017 £000
Highlands and Islands Enterprise	18,840	15,226
Wave Energy Scotland Limited	1,477	1,571
Former LECs	-	-
HIE Ventures Limited	62	32
	<b>20,379</b>	<b>16,829</b>

## 5b. Administration and management charges

	GROUP		HIE	
	2018	2017	2018	2017
	£000	£000	£000	£000
<b>Continuing operations</b>				
Staff & board member salaries	12,403	11,200	11,703	10,589
IAS 19 adjustment in respect of service costs and curtailments	(201)	(71)	(201)	(71)
	<b>12,202</b>	<b>11,129</b>	<b>11,502</b>	<b>10,518</b>
Travel and subsistence - board members	17	17	17	17
Travel and subsistence - staff	809	796	711	683
Accommodation	1,409	1,072	1,379	1,054
Hospitality – board members	5	6	5	6
Hospitality – staff	28	17	28	17
Audit fees	139	137	132	132
Non-audit fees paid to auditors	-	-	-	-
Operating lease rentals – equipment	15	(16)	15	(16)
Equipment and furnishings	130	-	130	-
Provision for irrecoverable debts and losses	1,319	99	1,310	101
Investment Fair value adjustments	274	(96)	275	(96)
Other provisions	321	-	321	-
Other administration costs	2,674	2,667	2,197	2,037
	<b>7,140</b>	<b>4,699</b>	<b>6,520</b>	<b>3,935</b>
Depreciation of fixed assets	1,037	1,001	1,036	1,000
Amortisation of Intangible assets	-	-	-	-

Fees chargeable for audit services provided by Audit Scotland amounted to £133,490 (2017 - £131,510).

Details of staff and board members' salaries, including staff numbers can be found in the Remuneration and Staff report

## 6. Investment Income and Other finance income / (charges)

	GROUP		HIE	
	2018	2017	2018	2017
	£000	£000	£000	£000
<b>Investment Income</b>				
Dividends received	-	-	-	-
<b>Interest Receivable</b>				
Loan interest receivable	(127)	(113)	(127)	(112)
Bank interest receivable	(7)	(11)	(7)	(11)
Other Interest receivable	-	-	-	-
	<b>(134)</b>	<b>(124)</b>	<b>(134)</b>	<b>(123)</b>
<b>Other finance (income) / charges</b>				
Interest income on retirement benefit assets	(2,835)	(3,339)	(2,835)	(3,339)
Interest on retirement benefit scheme obligations	4,261	4,553	4,261	4,553
	<b>1,426</b>	<b>1,214</b>	<b>1,426</b>	<b>1,214</b>

## 7. Interest payable

	GROUP		HIE	
	2018	2017	2018	2017
	£000	£000	£000	£000
Other	63	7	63	7
	<b>63</b>	<b>7</b>	<b>63</b>	<b>7</b>

## 8. Taxation

Corporation tax is charged at 19 per cent (2017 20 per cent) on the taxable surplus of Highlands and Islands Enterprise and charged at rates between 10 and 20 per cent on the taxable income of its subsidiaries.

	GROUP		HIE	
	2018 £000	2017 £000	2018 £000	2017 £000
Current Tax				
Current tax on profits for the year	-	-	-	-
Adjustment in respect of prior years	-	-	-	-
<b>Total current tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Deferred Tax				
Current year	<b>(148)</b>	287	<b>(148)</b>	287
Adjustment in respect of previous periods	<b>255</b>	(38)	<b>255</b>	(38)
Effect of changes in Tax Rates	<b>16</b>	(144)	<b>16</b>	(144)
Total deferred tax	<b>123</b>	105	<b>123</b>	105
Tax per statement of comprehensive net expenditure	<b>123</b>	105	<b>123</b>	105
Factors affecting Tax Charge for the Period				
Net expenditure after interest	<b>74,042</b>	68,981	<b>75,189</b>	69,249
Tax on loss at 19% (2017 20%)	<b>(14,068)</b>	(13,796)	<b>(14,286)</b>	(13,850)
Tax under/(over) provided in previous years	<b>255</b>	(38)	<b>255</b>	(38)
Nontaxable income and disallowable expenditure	<b>14,128</b>	14,097	<b>14,346</b>	14,151
Effect of changes in Tax Rates	<b>16</b>	(144)	<b>16</b>	(144)
Revaluation	<b>(208)</b>	(14)	<b>(208)</b>	(14)
<b>Current tax charge</b>	<b>123</b>	105	<b>123</b>	105

Where liabilities for earlier years have not been finally agreed with the Inland Revenue, provision has been made for material estimated liabilities outstanding.

## 9. Property Plant & Equipment

At 31 March 2018, industrial and commercial properties were valued on an open market value basis, in accordance with the guidance notes on the valuation of assets issued by the Royal Institution of Chartered Surveyors. The valuations were carried out by Graham and Sibbald, Chartered Surveyors.

### GROUP

	Land & Buildings held for regeneration purposes	Land & Buildings held for own use	Assets under construction	Total Land & Buildings	Tenants Improvements	IT Equipment	Plant & Equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>								
At 1 April 2016	36,629	325	3,440	40,394	1,227	646	5,620	47,887
Additions	1,288	145	2,768	4,201	-	16	124	4,341
Write Down	-	-	-	-	-	-	-	-
Disposals	(592)	-	-	(592)	-	(10)	(57)	(659)
Reclassifications	(916)	3,115	(2,950)	(751)	-	-	-	(751)
Revaluations	(2,325)	(135)	-	(2,460)	-	-	-	(2,460)
Impairment	-	-	(2,702)	(2,702)	-	-	(12)	(2,714)
At 31 March 2017	34,084	3,450	556	38,090	1,227	652	5,675	45,644
<b>Depreciation</b>								
At 1 April 2016	-	-	-	-	1,074	302	2,523	3,899
Charged in year	385	47	-	432	74	90	405	1,001
Write Down	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	(10)	(57)	(67)
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(385)	(47)	-	(432)	-	-	-	(432)
At 31 March 2017	-	-	-	-	1,148	382	2,871	4,401
<b>Net Book Value</b>								
At 31 March 2017	34,084	3,450	556	38,090	79	270	2,804	41,243
At 1 April 2017	34,084	3,450	556	38,090	1,227	652	5,688	45,657
Additions	1,745	987	611	3,343	-	-	7	3,350
Write Down	-	-	-	-	-	-	-	-
Disposals	(11)	-	-	(11)	-	-	-	(11)
Reclassifications	123	-	(556)	(433)	-	-	-	(433)
Revaluations	(2,726)	(1,037)	-	(3,763)	-	-	-	(3,763)
Impairment	-	-	(380)	(380)	-	-	(8)	(388)
At 31 March 2018	33,215	3,400	231	36,846	1,227	652	5,687	44,412
<b>Depreciation</b>								
At 1 April 2017	-	-	-	-	1,148	382	2,884	4,414
Charged in year	399	61	-	460	70	90	417	1,037
Write Down	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(399)	(61)	-	(460)	-	-	-	(460)
At 31 March 2018	-	-	-	-	1,218	472	3,301	4,991
<b>Net Book Value</b>								
At 31 March 2018	33,215	3,400	231	36,846	9	180	2,386	39,421
At 1 April 2017	34,084	3,450	556	38,090	79	270	2,804	41,243
At 1 April 2016	36,629	325	3,440	40,394	153	344	3,097	43,988
<b>Analysis of asset financing:</b>								
	Land & Buildings held for regeneration purposes	Land & Buildings held for own use	Assets under construction	Total Land & Buildings	Tenants Improvements	IT Equipment	Plant & Equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Owned	33,442	3,450	556	37,448	79	270	2,803	40,600
Finance Leased	642	-	-	642	-	-	1	643
<b>Net Book Value</b>								
At 31 March 2017	34,084	3,450	556	38,090	79	270	2,804	41,243
Owned	32,723	3,400	231	36,354	9	180	2,385	38,928
Finance Leased	492	-	-	492	-	-	1	493
<b>Net Book Value</b>								
At 31 March 2018	33,215	3,400	231	36,846	9	180	2,386	39,421
At 1 April 2017	34,084	3,450	556	38,090	79	270	2,804	41,243
At 1 April 2016	36,629	325	3,440	40,394	153	344	3,097	43,988

**HIE**

	Land & Buildings held for regeneration purposes £000	Land & Buildings held for own use £000	Assets under construction £000	Total Land & Buildings £000	Tenants Improvements £000	IT Equipment £000	Plant & Equipment £000	Total £000
<b>Cost or valuation</b>								
At 1 April 2016	36,628	325	3,442	40,395	1,227	647	5,537	47,806
Additions	1,288	145	2,768	4,201	-	16	124	4,341
Write Down	-	-	-	-	-	-	-	-
Disposals	(592)	-	-	(592)	-	(10)	(57)	(659)
Reclassifications	(916)	3,115	(2,950)	(751)	-	-	-	(751)
Revaluations	(2,325)	(135)	-	(2,460)	-	-	-	(2,460)
Impairment	-	-	(2,702)	(2,702)	-	-	-	(2,702)
At 31 March 2017	34,083	3,450	558	38,091	1,227	653	5,604	45,575
<b>Depreciation</b>								
At 1 April 2016	-	-	-	-	1,075	302	2,472	3,849
Charged in year	385	47	-	432	74	90	404	1,000
Write Down	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	(10)	(57)	(67)
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(385)	(47)	-	(432)	-	-	-	(432)
At 31 March 2017	-	-	-	-	1,149	382	2,819	4,350
<b>Net Book Value</b>								
At 31 March 2017	34,083	3,450	558	38,091	78	271	2,785	41,225
At 1 April 2017	34,083	3,450	558	38,091	1,227	653	5,605	45,576
Additions	1,746	987	611	3,344	-	-	5	3,349
Write Down	-	-	-	-	-	-	-	-
Disposals	(11)	-	-	(11)	-	-	-	(11)
Reclassifications	123	-	(556)	(433)	-	-	-	(433)
Revaluations	(2,726)	(1,037)	-	(3,763)	-	-	-	(3,763)
Impairment	-	-	(380)	(380)	-	-	-	(380)
At 31 March 2018	33,215	3,400	233	36,848	1,227	653	5,610	44,338
<b>Depreciation</b>								
At 1 April 2017	-	-	-	-	1,149	383	2,819	4,351
Charged in year	399	61	-	460	70	90	416	1,036
Write Down	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(399)	(61)	-	(460)	-	-	-	(460)
At 31 March 2018	-	-	-	-	1,219	473	3,235	4,927
<b>Net Book Value</b>								
At 31 March 2018	33,215	3,400	233	36,848	8	180	2,375	39,411
At 1 April 2017	34,083	3,450	558	38,091	78	270	2,786	41,225
At 1 April 2016	36,628	325	3,442	40,395	152	345	3,065	43,957

**Analysis of asset financing:**

	Land & Buildings held for regeneration purposes £000	Land & Buildings held for own use £000	Assets under construction £000	Total Land & Buildings £000	Tenants Improvements £000	IT Equipment £000	Plant & Equipment £000	Total £000
Owned	33,441	3,450	558	37,449	78	270	2,785	40,582
Finance Leased	642	-	-	642	-	-	1	643
<b>Net Book Value</b>								
At 31 March 2017	34,083	3,450	558	38,091	78	270	2,786	41,225
Owned	32,723	3,400	233	36,356	8	180	2,374	38,918
Finance Leased	492	-	-	492	-	-	1	493
<b>Net Book Value</b>								
At 31 March 2018	33,215	3,400	233	36,848	8	180	2,375	39,411
At 1 April 2017	34,083	3,450	558	38,091	78	270	2,786	41,225
At 1 April 2016	36,628	325	3,442	40,395	152	345	3,065	43,957

**Analysis of fund of asset additions:**

	GROUP		HIE	
	2018 £000	2017 £000	2018 £000	2017 £000
Government Grant	3,153	4,341	3,152	4,341
EU	197	0	197	0
Total	3,350	4,341	3,349	4,341

**Reconciliation of profit on sales:**

	GROUP	
	2018 £000	2017 £000
Sales value of disposals	957	3,027
Net book value of disposals	(732)	(2,728)
Profit on sales	225	299

**10. Financial Assets****GROUP****Financial assets**

	2018 £000	2017 £000
Available for sale unlisted equity shares	132	613

Available for sale financial assets consist of investments in unlisted ordinary shares, which by their nature have no fixed maturity or redemption date.

These have been shown at their fair value. This fair value has been obtained using recent marketplace transactions, where available, or using a net worth basis of valuation. Due to the lack of marketplace comparable, other valuation methodologies were not considered appropriate.

**Loans & Receivables**

	Preference Shares £000	Loans & Receivables £000	Total £000	2017 £000
<b>Amortised Cost</b>				
At 1 April 2017	3,084	6,481	9,565	10,113
Additions	-	2,535	2,535	1,189
Repayments	-	(916)	(916)	(1,157)
Disposals	(42)	(10)	(52)	(111)
Fair Value Adjustment	1	(20)	(19)	102
Reclassification	-	-	-	-
Written off	(270)	(1,967)	(2,237)	(571)
At 31 March 2018	2,773	6,103	8,876	9,565
<b>Diminution in value</b>				
At 1 April 2017	3,084	3,704	6,788	7,330
Additions	-	1,660	1,660	254
Disposals	(41)	-	(41)	(50)
Released	-	(605)	(605)	(175)
Reclassification	-	-	-	-
Written off	(270)	(1,967)	(2,237)	(571)
At 31 March 2018	2,773	2,792	5,565	6,788
<b>Net book value</b>				
At 31 March 2018	-	3,311	3,311	2,777
At 1 April 2017	-	2,777	2,777	-
<b>Analysis of Loan &amp; Receivables</b>				
Due within 1 year	-	832	832	663
Due over 1 year	-	2,479	2,479	2,114

Preference shares and loans are shown at amortised cost after allowing for any impairment. Impairment is measured as the difference between the carrying amount and the present value of estimated future cash flows. HIE considers the above method of valuation provides a valuation which is equivalent to the fair value.

**HIE**
**Financial assets**

	2018	2017
	£000	£000
Available for sale unlisted equity shares	511	975

Available for sale financial assets consist of investments in unlisted ordinary shares, which by their nature have no fixed maturity or redemption date.

These have been shown at their fair value. This fair value has been obtained using recent marketplace transactions where available, or using a net worth basis of valuation. Due to the lack of marketplace comparable, other valuation methodologies were not considered appropriate.

**Loans & Receivables**

	Preference Shares £000	Loans & Receivables £000	Total £000	2017 £000
<b>Amortised Cost</b>				
At 1 April 2017	3,084	6,454	9,538	9,976
Additions	-	2,535	2,535	1,190
Repayments	-	(917)	(917)	(1,158)
Disposals	(41)	-	(41)	-
Fair Value Adjustment	-	(21)	(21)	101
Reclassification	-	-	-	-
Written off	(270)	(1,967)	(2,237)	(571)
At 31 March 2018	<b>2,773</b>	<b>6,084</b>	<b>8,857</b>	9,538
<b>Diminution in value</b>				
At 1 April 2017	3,084	3,704	6,788	7,280
Additions	-	1,660	1,660	254
Disposals	(41)	-	(41)	-
Released	-	(605)	(605)	(175)
Reclassification	-	-	-	-
Written off	(270)	(1,967)	(2,237)	(571)
At 31 March 2018	<b>2,773</b>	<b>2,792</b>	<b>5,565</b>	6,788
<b>Net book value</b>				
At 31 March 2018	-	3,292	3,292	2,750
At 1 April 2017	-	2,750	2,750	
<b>Analysis of Loan &amp; Receivables</b>				
Due within 1 year	-	832	832	663
Due over 1 year	-	2,460	2,460	2,087

Preference shares and loans are shown at amortised cost after allowing for any impairment. Impairment is measured as the difference between the carrying amount and the present value of estimated future cash flows. HIE considers the above method of valuation provides a valuation which is equivalent to the fair value.

All non-current assets acquired were financed by government grant

**Details of subsidiary undertakings: all held by Highlands and Islands Enterprise unless indicated.**

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
HIE Ventures Limited	Scotland	Ordinary Shares	55%	Venture Capitalist
Wave Energy Scotland Limited	Scotland	'A' Ordinary Shares (non-voting) Limited by Guarantee	80%	Promote and assist the development of wave energy technology in Scotland
HIE Argyll and the Islands	Scotland	n/a	n/a	Local enterprise company (Dormant)
HIE Caithness and Sutherland	Scotland	n/a	n/a	Local enterprise company (Dormant)
HIE Innse Gall	Scotland	n/a	n/a	Local enterprise company (Dormant)
HIE Inverness and East Highland	Scotland	n/a	n/a	Local enterprise company (Dormant)
HIE Lochaber	Scotland	n/a	n/a	Local enterprise company (Dormant)
HIE Moray	Scotland	n/a	n/a	Local enterprise company (Dormant)
HIE Orkney	Scotland	n/a	n/a	Local enterprise company (Dormant)
Ross and Cromarty Enterprise Limited	Scotland	n/a	n/a	Local enterprise company (Dormant)
HIE Shetland	Scotland	n/a	n/a	Local enterprise company (Dormant)
HIE Skye and Wester Ross	Scotland	n/a	n/a	Local enterprise company (Dormant)
Highlands and Islands Community Energy Company Limited	Scotland	n/a	n/a	Promote community involvement in renewable energy initiatives. (Dormant)
Taste of Orkney Limited	Scotland	Ordinary Shares	100%	Dormant company to protect brand
Made in Orkney Limited	Scotland	Ordinary Shares	100%	Dormant company to protect brand

All the local enterprise companies ceased to be operational with effect from 1 April 2008.

On 30 March 2012 50,000 ordinary shares of £1.00 each were acquired in HIE Ventures Limited, this increased HIE's holding from 30% to 55% of the ordinary shares. HIE acquired the shares to ensure the continuity of the HIE Ventures investment fund. The non-controlling interest amounts to 45% as at 31 March 2018.

**Details of associated and jointly controlled undertakings: all held by Highlands and Islands Enterprise unless indicated.**

All HIE's associated and jointly controlled undertakings are recognised in the accounts using the equity method unless indicated

**Limited by guarantee**

Name of company	Country of incorporation	Accounting period end	Percentage of Membership	Nature of business
Scottish Intellectual Asset Management Limited*	Scotland	31 March	50	Help build Scotland's competitiveness in modern knowledge economy by enabling Scottish businesses to exploit their intellectual assets
This is Remarkable Limited	Scotland	31 March	50	Assessment of organisations against the This is Remarkable Ltd national standard

On 20<sup>th</sup> June 2017 Investors in People Scotland limited changed its name to This is Remarkable Limited

Scottish Intellectual Asset Management and This is Remarkable Limited are treated as Associates within the HIE accounts by virtue of Scottish Enterprise having control of the entities through Board and contractual terms

\*The results of Scottish Intellectual Asset management are not recognised within the HIE accounts as they are a dormant company and are not considered material to the results of HIE or the group. The results are consolidated within the Scottish Enterprise accounts

**Limited by Shares**

Name of company	Country of incorporation	Accounting period end	Percentage of potential voting rights held	Nature of business
Inverness Airport Business Park Limited	Scotland	31 March	25.0	Construction and development of a business park adjacent to Dalcross airport

The results of Inverness Airport Business Park Limited are recognised in HIE's accounts by virtue of the controlling interest of 25%. HIE's shareholding of 5% would not be sufficient for IABP to be recognised in the accounts.

**Limited Liability Partnerships**

Name of company	Country of incorporation	Accounting period end	Percentage of potential voting rights held	Nature of business
Orkney Research and Innovation Campus	Scotland	31 March	50.0	Construction, development and management of a research and Innovation Campus

**Summarised financial information for HIE's subsidiary investments, on a combined basis, is presented below**

	Non Current Assets	Current Assets	Total Assets	Current Liabilities	Non Current Liabilities	Total Liabilities	Revenue	Expenses	Profit/ (Loss)
As at March 2016	142	2,874	3,016	(2,126)	(19)	(2,145)	783	(7,311)	(6,528)
As at March 2017	63	2,145	2,208	(1,365)	(19)	(1,384)	-	(7,664)	(7,664)
As at March 2018	46	2,306	2,352	(1,440)	(19)	(1,459)	638	(10,808)	(10,170)

**Summarised financial information for HIE's investments in equity accounted investees, on a combined basis, is presented below**

	Non Current Assets	Current Assets	Total Assets	Current Liabilities	Non Current Liabilities	Total Liabilities	Revenue	Expenses	Profit/ (Loss)
As at March 2016	5,087	1,577	6,664	(2,358)	(3,177)	(5,535)	2,575	(2,718)	(143)
As at March 2017	5,263	1,265	6,528	(2,902)	(2,885)	(5,787)	2,204	(2,494)	(290)
As at March 2018	8,035	2,878	10,913	(1,841)	(5,138)	(6,979)	2,794	(2,965)	(171)

**Movements in carrying amount of investment in equity accounted investees**

Carrying amount as at April 2016	£000
Share of reserves	352
Share of net profit/(Loss)	0
Carrying amount as at 31 March 2017	<u>(90)</u>
	<u>262</u>
Carrying amount as at April 2017	262
Share of net profit/(Loss)	1,534
Carrying amount as at 31 March 2018	<u>1,796</u>

**Details of investments in companies in which HIE's total investment in shares and loans:**

- (a) equals 20%, or more than 20%, of the voting rights and exceeds £100,000 or;  
 (b) the total investment exceeds £1,000,000

**Significant holdings**

Name of company - activity	% of voting rights	Holding as at 31 March 2018	Shares value paid £000	Original Loan Capital £000
Balcas Limited – production of renewable wood pellet fuel	-	29,811 cumulative convertible participating redeemable preferred shares	2,000	
Inverness Airport Business Park Limited – construction and operation of Business park	25%	500 class 'C' ordinary shares 24,997 class 'D' ordinary shares 275,000 redeemable preference shares	1 29 550	423 - -
HIE Ventures Limited - Equity investment company	55%	110,000 Ordinary Shares 40,000 class A ordinary shares	61 40	1,000 -
Investments in 35 other businesses			1,225	5,993
			<u>3,906</u>	<u>7,416</u>

## 11 Fair Value and impairments

Revaluations to fair value and impairment charges for the year

<b>Group</b>				
	Statement of comprehensive net expenditure	Revaluation reserve	Other reserve	Total
	£000	£000		£000
<b>Revaluations to fair value</b>				
Property, plant and equipment	3,763	1	-	3,764
Financial assets	486	-	(210)	276
	<b>4,249</b>	<b>1</b>	<b>(210)</b>	<b>4,040</b>
<b>Impairments</b>				
Property, plant and equipment	388	-	-	388
Financial assets	(1,660)	-	-	(1,660)
	<b>(1,272)</b>	<b>-</b>	<b>-</b>	<b>(1,272)</b>
<b>HIE</b>				
	Statement of comprehensive net expenditure	Revaluation reserve	Other reserve	Total
	£000	£000		£000
<b>Revaluations to fair value</b>				
Property, plant and equipment	3,763	1	-	3,764
Financial assets	485	-	(210)	275
	<b>4,248</b>	<b>1</b>	<b>(210)</b>	<b>4,039</b>
<b>Impairments</b>				
Property, plant and equipment	380	-	-	380
Financial assets	(1,660)	-	-	(1,660)
	<b>(1,280)</b>	<b>-</b>	<b>-</b>	<b>(1,280)</b>

## 12. Trade and other receivables

	Note	GROUP		HIE	
		2018 £000	2017 £000	2018 £000	2017 £000
Trade receivables		4,814	4,106	4,716	4,009
Provision for bad debts		(522)	(633)	(522)	(633)
		<b>4,292</b>	<b>3,473</b>	<b>4,194</b>	<b>3,376</b>
Taxation recoverable		200	581	200	579
Accrued income and prepayments		3,649	4,144	3,081	4,112
Owed by subsidiary undertakings		-	-	-	-
Loans & other receivables	10	832	663	832	663
		<b>8,973</b>	<b>8,861</b>	<b>8,307</b>	<b>8,730</b>

### Analysis of trade and other receivables within boundaries for whole government accounts

	GROUP		HIE	
	2018 £000	2017 £000	2018 £000	2017 £000
Balances with other central government bodies	203	609	203	607
Balances with local authorities	95	151	95	151
Balances with similar public bodies	34	56	34	56
	<b>332</b>	<b>816</b>	<b>332</b>	<b>814</b>
Balances with bodies external to government	8,641	8,045	7,975	7,916
	<b>8,973</b>	<b>8,861</b>	<b>8,307</b>	<b>8,730</b>

**13. Cash and cash equivalents**

	GROUP		HIE	
	2018 £000	2017 £000	2018 £000	2017 £000
Balance at 1 April	4,817	7,347	2,930	4,748
Net change in cash and cash equivalent balances	(2,424)	(2,530)	(1,565)	(1,818)
	<b>2,393</b>	<b>4,817</b>	<b>1,365</b>	<b>2,930</b>

	GROUP		HIE	
	2018 £000	2017 £000	2018 £000	2017 £000
Group and HIE funds	1,028	1,887	-	-
Other scheme funds held	1,365	2,930	1,365	2,930
	<b>2,393</b>	<b>4,817</b>	<b>1,365</b>	<b>2,930</b>

The Statement of Financial Position includes funds held by Highlands and Islands Enterprise relating to the following schemes:

	GROUP		HIE	
	2018 £000	2017 £000	2018 £000	2017 £000
Community Broadband Scotland	1,303	2,827	1,303	2,827
KEPP	62	103	62	103
	<b>1,365</b>	<b>2,930</b>	<b>1,365</b>	<b>2,930</b>

**14. Assets Classified as Held for Resale****Assets Held for resale**

Financial Assets, Land and buildings, plant and equipment deemed to be available for sale and where the sale is anticipated to complete within one year are included as current assets. Despite difficult market conditions the assets are being actively marketed with a view to completion of the sales in the coming year.

	Group			Total
	Land and Buildings £000	Plant and equipment £000	Financial Assets	
As at 1 April 2016	297	1,900	-	2,197
Transfers to assets Held for resale	736	-	-	736
Disposals of non current assets held for sale	(218)	(1,900)	-	(2,118)
Impairment recognised on re-measurement	(2)	-	-	(2)
<b>At 31 March 2017</b>	<b>813</b>	<b>-</b>	<b>-</b>	<b>813</b>

	Group			Total
	Land and Buildings £000	Plant and equipment £000	Financial Assets	
As at 1 April 2017	813	-	-	813
Transfers to assets Held for resale	414	-	-	414
Disposals of non current assets held for sale	(702)	-	-	(702)
Impairment recognised on re-measurement	-	-	-	-
<b>At 31 March 2018</b>	<b>525</b>	<b>-</b>	<b>-</b>	<b>525</b>

During the year it was decided Nil assets (2017 - Nil) would no longer be marketed for sale. The assets were transferred out of assets held for resale back into non-current assets.

Plant and equipment held for resale 31 March 2016 includes equipment for the manufacture of wind turbines at Machrihanish. The sale of the equipment completed on 8<sup>th</sup> April 2016.

	HIE			Total
	Land and Buildings £000	Plant and equipment £000	Financial Assets	
As at 1 April 2016	297	1,900	-	2,197
Transfers to assets Held for resale	736		-	736
Disposals of non current assets held for sale	(218)	(1,900)	-	(2,118)
Impairment recognised on re-measurement	(2)		-	(2)
<b>At 31 March 2017</b>	<b>813</b>	<b>-</b>	<b>-</b>	<b>813</b>

	HIE			Total
	Land and Buildings £000	Plant and equipment £000	Financial Assets	
As at 1 April 2017	813	-	-	813
Transfers to assets Held for resale	414		-	414
Disposals of non current assets held for sale	(702)	-	-	(702)
Impairment recognised on re-measurement	-		-	-
<b>At 31 March 2018</b>	<b>525</b>	<b>-</b>	<b>-</b>	<b>525</b>

During the year it was decided Nil assets (2017 - Nil) would no longer be marketed for sale. The assets were transferred out of assets held for resale back into non-current assets.

Plant and equipment held for resale 31 March 2016 includes equipment for the manufacture of wind turbines at Machrihanish. The sale of the equipment completed on 8th April 2016

## 15. Trade payables and other current liabilities: Amounts falling due within one year

	GROUP		HIE	
	2018 £000	2017 £000	2018 £000	2017 £000
Trade payables	7,067	7,309	6,031	6,597
Accruals and Deferred Income	5,817	5,397	5,597	5,177
Short Term Provisions	321	-	321	-
Prepaid rental income	612	600	612	600
Owed to subsidiary undertakings	-	-	704	417
	<b>13,817</b>	<b>13,306</b>	<b>13,265</b>	<b>12,791</b>
Taxation and social security	477	467	319	302
Corporation tax	-	-	-	-
	<b>477</b>	<b>467</b>	<b>319</b>	<b>302</b>

### Analysis of trade and other payables within boundaries for whole government accounts

	GROUP		HIE	
	2018 £000	2017 £000	2018 £000	2017 £000
Balances with other central government bodies	3,308	580	3,150	415
Balances with local authorities	94	198	94	198
Balances with similar public bodies	50	462	1,056	462
	<b>3452</b>	<b>1,240</b>	<b>4,300</b>	<b>1,075</b>
Balances with bodies external to government	10,842	12,533	9,284	12,018
	<b>14,294</b>	<b>13,773</b>	<b>13,584</b>	<b>13,093</b>

## 16. Trade payables and other liabilities: Amounts falling due after more than one year

	GROUP		HIE	
	2018 £000	2017 £000	2018 £000	2017 £000
Deferred income – other schemes	342	360	342	360
Deferred Tax	1,225	1,103	1,225	1,103
	<b>1,567</b>	<b>1,463</b>	<b>1,567</b>	<b>1,463</b>

## 17. Retirement Benefit Obligation

Staff may be members of the Highlands and Islands Enterprise superannuation scheme or local government pension funds. The Highlands and Islands Enterprise and local government superannuation schemes are defined benefit schemes with guaranteed benefits based on length of service and career average salary. The level of benefits provided depends upon the members' length of service and their career average salary. Benefits within the HIE scheme accrue at 1/80<sup>th</sup> for every year served. The benefits within the local government scheme accrue at 1/49<sup>th</sup> for every year of service. The local government pension funds are defined benefit schemes, the assets of which are held in independently administered funds

Contributions are made to the following local government pension funds by HIE:

- Highland Council Pension Fund
- Orkney Islands Council Pension Fund
- Shetland Islands Council Pension Fund
- Strathclyde Pension Fund

The pension scheme operated by Wave Energy Scotland is a defined benefit scheme. It is separate from HIE and involves no HIE employees. Further information about WES pension arrangements can be found in that company's annual report and accounts.

### Highlands and Islands Enterprise Superannuation Scheme

The actuarial valuation at **5 April 2018**, indicated a potential deficit of **£34.7** million in the HIE pension fund. In December 2013 HIE, with agreement of the HIE Pension Fund Trustees and Scottish Government implemented a recovery plan to address the shortfall. The plan was updated in June 2016 to:

- Lump sum contributions of £500K per annum from 2016 to 2035
- Pay additional contributions per months as a percentage of pensionable salaries from 2014 to 2035
  - From August 2016 to July 2035 8.1% of pensionable salaries

From August 2014, the HIE final salary pension scheme was closed. A new Career Average Revalued Earnings (CARE) scheme replaced the HIE final salary scheme. The retirement age under the new scheme is 65 years of age and member contributions will increase to 6% over the next 3 years.

### Pension disclosure under IAS 19

The assets of the scheme are held separately from those of Highlands and Islands Enterprise and are invested with independent investment managers agreed by the scheme's trustees. There are six trustees in total comprising an independent chairman, three Trustees appointed by Highlands and Islands Enterprise and two nominated by members. The trustees are responsible for ensuring the scheme is run in accordance with the members' best interests and the pension laws of the United Kingdom, as overseen by the Pension Regulator.

Highlands and Islands Enterprise operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at **5 April 2016** by a qualified independent actuary and updated to 31 March 2018 by a qualified independent actuary.

The service cost has been calculated using the Projected Unit method.

The expected rates of return on the scheme assets are determined by reference to relevant indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance of the scheme's investment portfolio.

The major assumptions used by the actuary were (in nominal terms):

	31 March 18	31 March 17	31 March 16	31 March 15	31 March 14
	%	%	%	%	%
Rate of salary increases (% per annum)	3.35	3.40	3.15	3.50	3.90
Rate of pension increase (% per annum)	2.35	2.40	2.15	2.00	2.60
Discount rate (% per annum)	2.65	2.60	3.50	3.30	4.50
Inflation rate (% per annum)	3.35	3.40	3.15	3.00	3.40

During the year, Highlands and Islands Enterprise paid contributions equivalent to 24.9 per cent of pensionable salaries.

The assets in the scheme and expected rate of return were:

	Value at 31 March 2018 £000	Value at 31 March 2017 £000	Value at 31 March 2016 £000	Value at 31 March 2015 £000	Value at 31 March 2014 £000
Equities	70,623	70,592	47,886	50,613	46,365
Gilts	12,965	13,261	16,644	16,446	12,811
Bonds	0	0	8,235	8,255	7,298
Property	8,182	7,869	7,677	7,458	5,721
Cash	2,239	1,513	1,117	1,243	1,164
Estimated employer assets	94,009	93,235	81,559	84,015	73,359
Present value of scheme liabilities	(128,691)	(143,441)	(113,401)	(112,085)	(94,674)
Deficit in the scheme	(34,682)	(50,206)	(31,842)	(28,070)	(21,315)
Related deferred tax asset/ (liability)	-	-	-	-	-
Net pension liability	(34,682)	(50,206)	(31,842)	(28,070)	(21,315)

The current values show a decrease in the deficit from 31 March 2017 of £15.5m to £34.7m at 31 March 2018.

### Local Government Pension Funds

The local government final salary pension scheme was closed on 31 March 2015. From April 2015, the local government pension fund will be a career average salary scheme.

### Pension disclosure under IAS 19

The assets of the scheme are held separately from those of Highlands and Islands Enterprise and are invested with independent investment managers agreed by the scheme's trustees.

The local government pension fund is a defined benefit scheme. A full actuarial valuation at 31 March 2014 and updated to 31 March 2018 by a qualified independent actuary.

The service cost has been calculated using the Projected Unit method.

The expected rates of return on the scheme assets are determined by reference to relevant indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance of the scheme's investment portfolio.

The major assumptions used by the actuary were (in nominal terms):

	31 March 18 %	31 March 17 %	31 March 16 %	31 March 15 %	31 March 14 %
Main assumptions:					
Rate of salary increases (% per annum)	3.35	3.40	4.20	4.33	5.13
Rate of pension increase (% per annum)	2.35	2.40	2.20	2.43	2.83
Discount rate (% per annum)	2.65	2.60	3.53	3.23	4.30
Inflation rate (% per annum)	3.35	3.40	3.20	3.40	3.40

The share of the assets in the funds and the expected rate of return were:

	Value at 31 March 2018 £000	Value at 31 March 2017 £000	Value at 31 March 2016 £000	Value at 31 March 2015 £000	Value at 31 March 2014 £000
Equities	12,726	12,476	9,932	9,921	8,762
Gilts	658	515	420	576	485
Bonds	1,940	1,876	1,803	1,817	1,416
Property	2,098	1,910	1,514	1,210	810
Cash	425	464	491	180	300
Estimated employer assets	17,850	17,241	14,160	13,704	11,773
Present value of scheme liabilities	(21,442)	(22,529)	(17,890)	(19,367)	(15,763)
Present value of unfunded liabilities	(745)	(819)	(681)	(751)	(674)
Deficit in the scheme	(4,337)	(6,107)	(4,411)	(6,414)	(4,664)
Related deferred tax liability	-	-	-	-	-
Net pension liability	(4,337)	(6,107)	(4,411)	(6,414)	(4,664)

The pension contributions with effect from 1 April 2017 for the local government pension funds are:

	2018	2017
Highland Council Pension Fund	30.1%	20.7%
Orkney Islands Council Pension Fund	18.2%	19.2%
Strathclyde Pension Fund	33.6%	18.0%

**GROUP**

	HIE	LGPF	Total	HIE	LGPF	Total
	2018	2018	2018	2017	2017	2017
	£000	£000	£000	£000	£000	£000
<b>Analysis of the amount charged to SCNE</b>						
Current service cost	3,215	524	3,739	2,219	365	2,584
Past service cost			-			-
Admin expenses	320		320	509		509
Interest income on retirement benefit assets	(2,386)	(449)	(2,835)	(2,840)	(499)	(3,339)
Interest on retirement benefit scheme obligations	3,650	611	4,261	3,899	654	4,553
Net pension scheme expense	4,799	686	5,485	3,787	520	4,307
<b>Analysis of the amount recognised in SOCEs</b>						
Actual return less expected return on pension scheme assets	(616)	38	(578)	10,395	2,491	12,886
Experience gains and (losses) arising on the scheme liabilities	8,200	1,562	9,762	(63)	(51)	(114)
Changes in demographic assumptions underlying the present value of the scheme liabilities			-			-
Changes in financial assumptions underlying the present value of the scheme liabilities	8,812	523	9,335	(27,741)	(3,948)	(31,689)
Restriction on scheme surplus			-			-
Prior year adjustment on assets			-			-
Defined benefit income/(cost) recognised in SOCE	16,396	2,123	18,519	(17,409)	(1,508)	(18,917)
<b>Reconciliation of defined benefit obligation</b>						
Opening defined benefit obligation	143,441	23,348	166,789	113,401	18,571	131,972
Recognised on acquisition			-			-
	143,441	23,348	166,789	113,401	18,571	131,972
Movement in year:						
Current Service costs	3,215	524	3,739	2,219	365	2,584
Contributions by members	568	100	668	550	99	649
Past service costs	-	-	-	-	-	-
Impact of settlements and curtailments	-	-	-	-	-	-
Estimated unfunded benefits paid	-	(29)	(29)	-	(31)	(31)
Estimated benefits paid	(5,171)	(282)	(5,453)	(4,432)	(309)	(4,741)
Interest cost	3,650	611	4,261	3,899	654	4,553
Actuarial losses/(gains)	(17,012)	(2,085)	(19,097)	27,804	3,999	31,803
Closing defined benefit obligation	128,691	22,187	150,878	143,441	23,348	166,789
Present value of funded liabilities	128,691	21,442	150,133	143,441	23,348	166,789
Present value of unfunded liabilities	-	745	745	-	-	-
<b>Reconciliation of fair value of assets</b>						
Opening fair value of assets	93,235	17,241	110,476	81,559	14,160	95,719
Prior year adjustment			-			-
Opening fair value of assets – as restated	93,235	17,241	110,476	81,559	14,160	95,719
Recognised on acquisition			-			-
Expected return on assets	2,386	449	2,835	2,840	499	3,339
Contributions by members	568	100	668	550	99	649
Contributions by employer	3,927	304	4,231	2,832	301	3,133
Contribution in respect of unfunded benefits	-	29	29	-	31	31
Admin expenses	(320)	-	(320)	(509)	-	(509)
Actuarial gains/(losses)	(616)	38	(578)	10,395	2,491	12,886
Estimated unfunded benefits paid		(29)	(29)	-	(31)	(31)
Estimated benefits paid	(5,171)	(282)	(5,453)	(4,432)	(309)	(4,741)
	94,009	17,850	111,859	93,235	17,241	110,476
Estimated employer contributions for the year ended 31 March 2019	4,500	582	5,082	2,909	307	3,216

**HIE**

	HIE	LGPF	Total	HIE	LGPF	Total
	2018	2018	2018	2017	2017	2017
	£000	£000	£000	£000	£000	£000
<b>Analysis of the amount charged to SCNE</b>						
Current service cost	3,215	524	3,739	2,219	365	2,584
Past service cost	-	-	-	-	-	-
Admin expenses	320	-	320	509	-	509
Interest income on retirement benefit assets	(2,386)	(449)	(2,835)	(2,840)	(499)	(3,339)
Interest on retirement benefit scheme obligations	3,650	611	4,261	3,899	654	4,553
Net pension scheme expense	4,799	686	5,485	3,787	520	4,307
<b>Analysis of the amount recognised in SOCEs</b>						
Actual return less expected return on pension scheme assets	(616)	38	(578)	10,395	2,491	12,886
Experience gains and (losses) arising on the scheme liabilities	8,200	1,562	9,762	(63)	(51)	(114)
Changes in demographic assumptions underlying the present value of the scheme liabilities	-	-	-	-	-	-
Changes in financial assumptions underlying the present value of the scheme liabilities	8,812	523	9,335	(27,741)	(3,948)	(31,689)
Restriction on scheme surplus	-	-	-	-	-	-
Prior year adjustment on assets	-	-	-	-	-	-
Defined benefit income/(cost) recognised in SOCE	16,396	2,123	18,519	(17,409)	(1,508)	(18,917)
<b>Reconciliation of defined benefit obligation</b>						
Opening defined benefit obligation	143,441	23,348	166,789	113,401	18,571	131,972
Recognised on acquisition	-	-	-	-	-	-
	143,441	23,348	166,789	113,401	18,571	131,972
Movement in year:						
Current Service costs	3,215	524	3,739	2,219	365	2,584
Contributions by members	568	100	668	550	99	649
Past service costs	-	-	-	-	-	-
Impact of settlements and curtailments	-	-	-	-	-	-
Estimated unfunded benefits paid	-	(29)	(29)	-	(31)	(31)
Estimated benefits paid	(5,171)	(282)	(5,453)	(4,432)	(309)	(4,741)
Interest cost	3,650	611	4,261	3,899	654	4,553
Actuarial losses/(gains)	(17,012)	(2,085)	(19,097)	27,804	3,999	31,803
Closing defined benefit obligation	128,691	22,187	150,878	143,441	23,348	166,789
Present value of funded liabilities	128,691	21,442	150,133	143,441	23,348	166,789
Present value of unfunded liabilities	-	745	745	-	-	-
<b>Reconciliation of fair value of assets</b>						
Opening fair value of assets	93,235	17,241	110,476	81,559	14,160	95,719
Prior year adjustment	-	-	-	-	-	-
Opening fair value of assets –as restated	93,235	17,241	110,476	81,559	14,160	95,719
Recognised on acquisition	-	-	-	-	-	-
Expected return on assets	2,386	449	2,835	2,840	499	3,339
Contributions by members	568	100	668	550	99	649
Contributions by employer	3,927	304	4,231	2,832	301	3,133
Contribution in respect of unfunded benefits	-	29	29	-	31	31
Admin expenses	(320)	-	(320)	(509)	-	(509)
Actuarial gains/(losses)	(616)	38	(578)	10,395	2,491	12,886
Estimated unfunded benefits paid	-	(29)	(29)	-	(31)	(31)
Estimated benefits paid	(5,171)	(282)	(5,453)	(4,432)	(309)	(4,741)
	94,009	17,850	111,859	93,235	17,241	110,476
Estimated employer contributions for the year ended 31 March 2019	4,500	582	5,082	2,909	307	3,216

Expenditure recognised in the Statement of Comprehensive net expenditure

	2018 £000	2017 £000
Net management expenditure on staff costs	(201)	(71)
Other finance charges/(income)	1,426	1,214

The total loss amount recognised in the statement of other comprehensive net expenditure in respect of net actuarial gains and losses is £18,519k gain (2017 £18,917k loss).

Cumulative actuarial gains and losses recognised in the statement of comprehensive net expenditure since 1 April 2002 are net losses of £23,059k (2017 £41,578k loss).

A history of the Highlands & Islands Enterprise superannuation scheme and for its share of the Local Government Pension schemes for prior periods is as follows:

	HIE					LGPF				
	2018	2017	2016	2015	2014	2018	2017	2016	2015	2014
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Experience gains and losses</b>										
Difference between expected and actual return on scheme assets	(616)	10,395	(5,150)	7,221	801	38	2,491	(185)	1,255	249
Value of assets	94,009	93,235	81,559	84,015	73,359	17,850	17,241	14,160	13,704	11,773
Percentage of scheme assets	(0.7)%	11.1%	(6.3)%	8.6%	1.1%	0.2%	14.4%	(1.3)%	9.2%	2.1%
Experience gains and (losses) on scheme liabilities	8,200	(63)	1,808	141	127	1,562	(51)	208	(51)	(18)
Present value of liabilities	(128,691)	(143,441)	(113,401)	(112,085)	(94,674)	(22,187)	(23,348)	(18,571)	(20,118)	(16,437)
Percentage of scheme liabilities	(6.4)%	0.0%	(1.6)%	(0.1)%	(0.1)%	(7.0)%	0.2%	(1.1)%	0.3%	0.1%

## Mortality

The assumptions relating to longevity underlying the pension liabilities at the Statement of Financial Position date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year-old to live for a number of years as follows:

	HIE		LGPF	
	UK	UK	UK	UK
	31/03/18	31/03/17	31/03/18	31/03/17
1. Male member aged 65 (current life expectancy)	23.1	24.7	21.8	22.5
2. Male member age 45 (life expectancy at 65)	24.1	27.1	23.5	24.9
3. Female member aged 65 (current life expectancy)	24.7	25.5	24.0	23.8
4. Female member aged 45 (life expectancy at 65)	26.6	28.4	26.1	26.7

## Defined benefit obligation analysed by participant status

	HIE		LGPF		HIE		LGPF	
	2018	2018	2018	2018	2017	2017	2017	2017
	%	£000	%	£000	%	£000	%	£000
Active members	34.5%	44,398	58.9%	12,628	38.6%	55,368	61.0%	13,749
Vested deferred members	23.0%	29,599	22.8%	4,886	23.9%	34,282	23.3%	5,252
Retired members	42.5%	54,694	18.3%	3,928	37.5%	53,791	15.7%	3,528
		<u>128,691</u>		<u>21,442</u>		<u>143,441</u>		<u>22,529</u>

## Sensitivity Analysis

	HIE		LGPF	
	2018	2018	2018	2018
	%	£000	%	£000
0.5% decrease in real discount rate	10.4%	13,328	10.8%	2,406
1 Year increase in member life expectancy	4.0%	5,148	4.0%	887
0.5% increase in the salary increase rate	0.7%	929	2.0%	452
0.5% increase in pension increase rate	7.9%	10,266	8.6%	1,910

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, as changes in assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

## Risks

Through its defined benefit pension scheme the group is exposed to a number of risks, the most significance of which are detailed below: -

### Asset volatility

The scheme liabilities are calculated using a discount rate set with reference to corporate bond yield and if plan assets underperform this yield, this will result in a deficit. The group's pension schemes hold a significant proportion of equities, which are expected to outperform corporate bonds in the long-term although exposing the group to volatility and risk in the short-term.

### Changes in bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the scheme's bond holdings.

### Inflation risk

The majority of the scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities although, in most cases, caps and the level of inflationary increases are in place to protect the plan against extreme inflation.

**Life expectancy**

The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in the life of the member will result in an increase in the liabilities.

	HIE	LGPF
	Years	Years
Weighted average duration of defined benefit obligation	20.4	21.5

**18. Net Cash Flow From Operating Activities**

	Note	GROUP		HIE	
		2018 £000	2017 £000	2018 £000	2017 £000
Deficit on operating activities		74,221	67,794	73,834	68,151
Interest received	6	(134)	(123)	(134)	(123)
Dividends received	6	-	-	-	-
Share of related company results	10	(1,534)	90	-	-
Gain/loss on financial assets at fair value	3	(1)	-	(1)	-
Profit of sale of assets	3	225	299	45	119
Interest payable	7	63	7	63	7
Net cash outflow from operating activities		<b>72,840</b>	68,067	<b>73,807</b>	68,154

**19. Commitments**

	GROUP		HIE	
	2018 £000	2017 £000	2018 £000	2017 £000
<b>Commitments</b>				
Property	<b>20,714</b>	17,635	<b>20,714</b>	17,635
Grants and loans	<b>57,898</b>	62,548	<b>51,670</b>	58,899

Commitments to capital and business investment projects often extend over more than one financial year. Major projects and initiatives are undertaken by Highlands and Islands Enterprise with the support of Scottish Ministers.

**20. Financial Commitments**

Highlands & Islands Enterprise has entered into commercial leases on certain properties and items of equipment. These leases have an average duration of between 3 and 20 years.

Future minimum payments due under non-cancellable operating leases:

**GROUP**

	Property £000	Equipment £000	Total £000	2017 £000
Obligations under Operating and similar leases:				
Within one year	857	7	<b>864</b>	915
Within two to five years	2784		<b>2,784</b>	3,285
In over five years	589		<b>589</b>	945
	<b>4,230</b>	<b>7</b>	<b>4,237</b>	5,145

**HIE**

	Property £000	Equipment £000	Total £000	2017 £000
Obligations under Operating and similar leases:				
Within one year	857	7	<b>864</b>	<b>915</b>
Within two to five years	2,784		<b>2,784</b>	<b>3,285</b>
In over five years	589		<b>589</b>	<b>945</b>
	<b>4,230</b>	<b>7</b>	<b>4,237</b>	<b>5,145</b>

HIE has sublet space in certain properties. The future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 31 March 2018 is £2,438 (2017 £3,124k).

Highlands & Islands holds office and manufacturing buildings as investment properties, which are let to third parties. These non-cancellable leases have remaining terms between 1 and 20 years.

Future minimum rentals receivable under non-cancellable operating leases:

**GROUP**

	Property £000	Equipment £000	Total £000	2017 £000
Receivable under Operating and similar leases:				
Within one year	4,149	70	4,219	3,897
Within two to five years	11,957	210	12,167	12,888
In over five years	14,242	-	14,242	7,545
	<b>30,348</b>	<b>280</b>	<b>30,628</b>	<b>24,330</b>

**HIE**

	Property £000	Equipment £000	Total £000	2017 £000
Receivable under Operating and similar leases:				
Within one year	4,149	70	4,219	3,897
Within two to five years	11,957	210	12,167	12,888
In over five years	14,242	0	14,242	7,545
	<b>30,348</b>	<b>280</b>	<b>30,628</b>	<b>24,330</b>

Highlands and Islands Enterprise has entered into a number of finance leases to acquire certain properties and items of plant.

Future minimum payments due under non-cancellable finance leases:

**GROUP**

	Property £000	Plant & Equipment £000	Total £000	2017 £000
Obligations under Finance and similar leases:				
Within one year	284	1	285	260
Within two to five years	1,137	-	1,137	1,037
In over five years	7,370	-	7,370	6,641
	<b>8,791</b>	<b>1</b>	<b>8,792</b>	<b>7,938</b>
Finance charges allocated to future periods	-	-	-	-
	<b>8,791</b>	<b>1</b>	<b>8,792</b>	<b>7,938</b>
Present Value of minimum lease payments				
Within one year	284	1	285	260
Within two to five years	1,137	-	1,137	1,037
In over five years	7,370	-	7,370	6,641
	<b>8,791</b>	<b>1</b>	<b>8,792</b>	<b>7,938</b>

**HIE**

	Property £000	Plant & Equipment £000	Total £000	2017 £000
Obligations under Finance and similar leases:				
Within one year	284	1	285	260
Within two to five years	1,137	-	1,137	1,037
In over five years	7,370	-	7,370	6,641
	<b>8,791</b>	<b>1</b>	<b>8,792</b>	<b>7,938</b>
Finance charges allocated to future periods	-	-	-	-
	<b>8,791</b>	<b>1</b>	<b>8,792</b>	<b>7,938</b>
Present Value of minimum lease payments				
Within one year	284	1	285	260
Within two to five years	1,137	-	1,137	1,037
In over five years	7,370	-	7,370	6,641
	<b>8,791</b>	<b>1</b>	<b>8,792</b>	<b>7,938</b>

## 21. Contingent Liabilities

As the owner of the CairnGorm mountain ski area HIE has responsibility for the costs of removal of equipment and re-instatement of the site of the funicular railway to a natural condition.

HIE occupies a number of leased properties which have dilapidations clauses in the leases. These properties are maintained in excellent order, but there is a potential liability to reinstate the internal layout of the building to its original floor plan. These costs will be subject to negotiation.

## 22. Transactions involving Board members' and Directors registered interests

During the year the following transactions were made by Highlands & Islands Enterprise with businesses in which Highlands and Islands Enterprise Board members had an interest:

Transactions where a director had a financial interest

Business	Approvals brought forward		Amount approved/ (withdrawn) in year (£)	Amount paid in year (£)	Nature of transaction	Board member and interest
	(£)	(£)				
Aros (Isle of Skye) Ltd	-	55,700	12,628	Graduate Placement Grant	D MacDonald - Managing Director	
Crerar Hotels		975	975	Accommodation and room hire	P Crerar - Chief Executive Officer	
Harper Macleod	-	19,256	19,256	Legal fees	L Crerar - Member	
Inverness College UHI	-	26,851	26,851	Invoices and Grants relating to collaborative projects	A Bryan - Lecturer	
Law School, University of Glasgow	-	255,910	5,910	Research	L Crerar - Professor	
MG Alba	60,016	23,350	12,200	Gaelic project grant	I MacTaggart - Director	
Scottish Water	-	5,201	5,201	Water Rates	B Oldfield - Employee	

Organisations which received funding in the year and in which the Board members, key managerial staff or other related parties had a non-financial interest include:

**Cairngorm Mountain Limited**  
**Comunn na Gaidhlig**  
**Gaeltec Devices**  
**HIE Ventures Limited**  
**Highland Print Studio**  
**Isle of Eigg Heritage Trust**  
**MacTV**  
**Manufacturing Action Plan Board**  
**Mull & Iona Community Enterprise**  
**NHS Highland**  
**Orkney Research and Innovation Campus LLP**  
**Sabhal Mor Ostaig**  
**Scottish Aquaculture Innovation Centre Board**  
**Social Investment Scotland**  
**SSE plc**  
**Staffin Community Trust**  
**Stuart Ross (Scotland) Limited**  
**This is Remarkable Limited**  
**University of Highlands & Islands**  
**Wave Energy Scotland Limited**

## 23. Related party transactions

Highlands and Islands Enterprise is a Non-Departmental Public Body sponsored by the Scottish Government.

The Scottish Government is regarded as a related party. During the year, Highlands and Islands Enterprise has had various material transactions with the Scottish Government and with other entities for which the Scottish Government is regarded as the parent body.

In addition, Highlands and Islands Enterprise has had a small number of transactions with other Government departments, central government bodies, local government, non-departmental public bodies and similar organisations.

Transactions have taken place with:

**Argyll & Bute Council**  
**Audit Scotland**  
**CairnGorm National Park Authority**

Comhairle Nan Eilean Siar  
 Companies House  
 Her Majesty's Customs & Revenue  
 NHS Highland  
 NHS National Service  
 North Ayrshire Council  
 Orkney Islands Council  
 Orkney Islands Hospital  
 Scottish Enterprise  
 Scottish Environment Protection Agency  
 Scottish Natural Heritage  
 Scottish Water  
 Shetland Island Council  
 Skills Development Scotland  
 The Highland Council  
 Visit Scotland

None of the Board members, key managerial staff or other related parties have undertaken any material transactions with Highlands and Islands Enterprise other than those disclosed in note 22.

**Compensation of key management personnel**

Key management personnel are considered to be the non-executive board members and the executive directors. Detail of their remuneration is disclosed in the Directors Remuneration Report. In addition to the amounts shown in this report HIE has paid £7K (2017: £7K) employers national insurance contributions and Nil (2017 Nil) employer pension contributions.

**24. Financial instruments**

Highland and Islands Enterprise has exposure to the following risks from the use of financial instruments: -

- Liquidity risk
- Credit risk
- Market risk

This note presents information about the Group and Highlands & Island Enterprise exposure to each of the above risks. Further quantitative disclosures are included throughout these accounts.

The Leadership Team has overall responsibility for the establishment and oversight of the company's risk management framework. The risk and assurance committee oversees how management monitors compliance with Highlands & Islands Enterprise risk management policies and procedures and reviews the adequacy of the risk management framework in relation to risks faced by Highlands and Islands Enterprise.

The Group and Highlands and Islands Enterprise have no derivative financial assets or liabilities.

**Liquidity risk**

Liquidity risk is the risk that Highlands and Islands Enterprise will not be able to meet its financial obligations as they fall due. The organisation's approach to managing liquidity is to ensure that it will have sufficient liquid funds to meet its liabilities as they fall due. Highlands & Islands Enterprise's primary source of liquidity is the Grant in Aid provision from the Scottish Government. Highlands and Islands Enterprise has no debt or borrowing facility with any external party.

Liquidity is managed using the annual business plan process and the monitoring of actual performance against budgets and forecasts.

The table below details the contractual maturities of financial liabilities.

**2018**

<b>Group</b>	<b>Carrying Amount</b>	<b>Contractual Cashflows</b>	<b>Within one year</b>	<b>After more than one year</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Financial Liabilities</b>				
Trade and other payables	12,884	12,884	12,884	-
	<b>12,884</b>	<b>12,884</b>	<b>12,884</b>	<b>-</b>

**HIE**

	<b>Carrying Amount</b>	<b>Contractual Cashflows</b>	<b>Within one year</b>	<b>After more than one year</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Financial Liabilities</b>				
Trade and other payables	12,332	12,332	12,332	-
	<b>12,332</b>	<b>12,332</b>	<b>12,332</b>	<b>-</b>

**2017**
**Group**

	Carrying Amount	Contractual Cashflows	Within one year	After more than one year
	£000	£000	£000	£000
<b>Financial Liabilities</b>				
Trade and other payables	12,706	12,706	12,706	-
	<b>12,706</b>	<b>12,706</b>	<b>12,706</b>	<b>-</b>

**HIE**

	Carrying Amount	Contractual Cashflows	Within one year	After more than one year
	£000	£000	£000	£000
<b>Financial Liabilities</b>				
Trade and other payables	12,191	12,191	12,191	-
	<b>12,191</b>	<b>12,191</b>	<b>12,191</b>	<b>-</b>

The Group and Highlands and Islands Enterprise have no outstanding borrowings at 31 March 2018 (2017: £nil).

**Credit risk**

Credit risk is the risk of financial loss to Highlands and Islands Enterprise if a customer or counter party fails to meet its contractual obligations and arises from trade receivables.

Credit risk arising from the Group and Highlands and Islands Enterprise's normal operations, including holding non-current financial assets and other investments, is controlled by individual business units and group companies operating in accordance with HIE policies and procedures.

In pursuit of economic growth targets, Highlands and Islands Enterprise makes investments in a variety of companies, in part using funds provided by the European Union. Management monitors the performance of all investments and regularly revalue assets available for sale to their fair value and provides, where appropriate, for impairment of assets held to maturity, loans and other materials.

Highlands and Islands Enterprise carries out appropriate credit checks on potential customers before significant sales transactions are entered into in order to mitigate the credit risk Highlands and Islands Enterprise will have from any single counterparty. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position.

Highlands and Islands Enterprise operates a debt management process including monitoring, escalation procedures and recourse to court action to recover monies outstanding. Provision is made for doubtful receivables upon the age of the debt and experience of collecting overdue debts. Cash and cash equivalents are held with banks which are not expected to fail.

Highlands and Islands Enterprise' exposure to credit risk is likely to have increased in the current economic climate, but management do not consider this to have had a significant impact as the risk is spread across a large number of receivables. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position. The maximum exposure to credit risk at 31 March was: -

**Group**

	Carrying Amount	Carrying Amount
	2018	2017
	£000	£000
<b>Financial Assets - Other Investments</b>		
Available for sale unlisted equity shares	132	613
Preference shares	-	-
Loans and other receivables	3,311	2,777
<b>Financial assets</b>		
Trade and other receivables	7,941	7,617
Cash and cash equivalents	2,393	4,817
	<b>13,777</b>	<b>15,824</b>

<b>HIE</b>	<b>Carrying Amount</b>	
	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
<b>Financial Assets - Other Investments</b>		
Available for sale unlisted equity shares	511	975
Preference shares	-	-
Loans and other receivables	3,292	2,750
<b>Financial assets</b>		
Trade and other receivables	7,275	7,488
Cash and cash equivalents	1,365	2,930
	<b>12,443</b>	<b>14,143</b>

The ageing of trade and other receivables at 31 March was: -

<b>Group</b>	<b>Gross</b>		<b>Impairment</b>	
	<b>2018</b>	<b>2018</b>	<b>2017</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Not past due</b>	7,869	-	7,224	-
<b>Past due 0 to 30 days</b>	116	(79)	192	(40)
<b>Past due more than 31 days</b>	478	(443)	834	(593)
	<b>8,463</b>	<b>(522)</b>	<b>8,250</b>	<b>(633)</b>

<b>HIE</b>	<b>Gross</b>		<b>Impairment</b>	
	<b>2018</b>	<b>2018</b>	<b>2017</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Not past due</b>	7,203	-	7,095	-
<b>Past due 0 to 30 days</b>	116	(79)	192	(40)
<b>Past due more than 31 days</b>	478	(443)	834	(593)
	<b>7,797</b>	<b>(522)</b>	<b>8,121</b>	<b>(633)</b>

Movements in impairment of trade and other receivables is shown in Note 11. Impairment provisions are used to record impairment losses unless the Group and Highlands and Islands Enterprise is satisfied that no recovery of the amount owing is possible; at that point, the amount is considered irrecoverable and is written off directly against the financial asset.

### Market risk

Market risk is the risk that market prices such as interest rates, foreign exchange rates and equity prices will affect income or the value of holdings in financial instruments.

#### Interest rate risk

At the date of the Statement of Financial Position the market risk of Highlands and Islands Enterprise's interest bearing financial instruments was: -

<b>Group</b>	<b>Carrying Amount</b>	
	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
<b>Fixed rate instruments</b>		
Financial assets	3,311	2,777
Financial liabilities	-	-
	<b>3,311</b>	<b>2,777</b>
<b>Variable rate instruments</b>		
Cash and cash equivalents	2,393	4,817
	<b>2,393</b>	<b>4,817</b>

<b>HIE</b>	<b>Carrying Amount</b>	
	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
<b>Fixed rate instruments</b>		
Financial assets	3,292	2,750
Financial liabilities	-	-
	<b>3,292</b>	<b>2,750</b>
<b>Variable rate instruments</b>		
Cash and cash equivalents	1,365	2,930
	<b>1,365</b>	<b>2,930</b>

In assessing the sensitivity of financial instruments Highlands & Islands Enterprise does not believe our Financial Assets are significantly affected by market risk. Cash and cash equivalents are subject to variation based on movements in the Bank of England base rate and associated interest rates. Assuming that all other variables remain constant a change of 100 basis points in interest rates at the reporting date would have increased /decreased net operating costs as follows:

	<b>Group</b>	<b>HIE</b>
	<b>100 basis points change</b>	<b>100 basis points change</b>
	<b>£000</b>	<b>£000</b>
<b>Cash and cash equivalents</b>		
31 March 2017	61	38
31 March 2018	36	21

#### Currency risk

Highlands and Islands Enterprise is exposed to currency risk on transactions and balances that are denominated in currencies other than Sterling. Whenever practical, Highlands and Islands Enterprise enters into agreements in its functional currency in order to minimise currency risks.

Highlands and Islands Enterprise is exposed to currency risks from its activities conducted overseas, but does not enter into any hedge arrangements and does not consider currency risk to be material.

#### Fair values

The fair values, together with the carrying amounts of financial assets and liabilities in the Statement of Financial Position, are as follows: -

<b>Group</b>	<b>Carrying Amount</b>		<b>Fair Value</b>	
	<b>2018</b>	<b>2018</b>	<b>2017</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Available for sale unlisted equity shares	132	132	613	613
Preference shares	-	-	-	-
Loans and other receivables	3,311	3,311	2,777	2,777
Trade and other receivables	7,941	7,941	7,617	7,617
Cash and cash equivalents	2,393	2,393	4,817	4,817
Trade and other payables	(12,884)	(12,884)	(12,706)	(12,706)
Taxation recoverable	200	200	581	581
	<b>1,093</b>	<b>1,093</b>	<b>3,699</b>	<b>3,699</b>

<b>HIE</b>	<b>Carrying Amount</b>		<b>Fair Value</b>	
	<b>2018</b>	<b>2018</b>	<b>2017</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Available for sale unlisted equity shares	511	511	975	975
Preference shares	-	-	-	-
Loans and other receivables	3,292	3,292	2,750	2,750
Trade and other receivables	7,275	7,275	7,488	7,488
Cash and cash equivalents	1,365	1,365	2,930	2,930
Trade and other payables	(12,332)	(12,332)	(12,191)	(12,191)
Taxation recoverable	200	200	579	579
	<b>311</b>	<b>311</b>	<b>2,531</b>	<b>2,531</b>

Financial assets available for sale are not being actively marketed and there is no expectation that completed sales will occur within one year.

**Non-Current assets**

**Valuation Process**

The company's finance department is responsible for performing annual valuations of fair value measurements included in the financial statements, including Level 3 fair values. The valuation process uses recent marketplace transaction, where available, or on a net worth basis of valuation.

These valuations for recurring measurements are reviewed and approved by the Capital and Resource Planning Manager and the Head of Financial Services.

**Fair value hierarchy**

Group and Highlands and Islands Enterprise financial assets and liabilities that are valued at fair value are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (i.e. unobservable market inputs).

The following table summarises fair value measurements in the statements of Financial Position or disclosed in the Company's financial statement by class of asset or liability and categorised by level according to the significance of the inputs in making the measurements

Group	2018 £000	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains/ (Losses)
		£000	£000	£000	£000
<b>Recurring Measurements</b>					
Available for sale unlisted equity shares	132	-	-	132	(210)
<b>Non-recurring Measurements</b>					
Property classified as held-for-resale	525	-	525	-	-
Plant & Equipment classified as held-for-resale	-	-	-	-	-

HIE	2018 £000	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains/ (Losses)
		£000	£000	£000	£000
<b>Recurring Measurements</b>					
Available for sale unlisted equity shares	511	-	-	511	(210)
<b>Non-recurring Measurements</b>					
Property classified as held-for-resale	525	-	525	-	-
Plant & Equipment classified as held-for-resale	-	-	-	-	-

- Level 1 inputs for recurring measurements include observable market data. Private sector investors have purchased shares at the same share price as HIE within the last financial year.
- Level 2 non-recurring measurements include annual valuations from independent Chartered Surveyors, Graham & Sibbald.
- Level 3 Equity shares are valued using recent marketplace transactions, where available, or using a net worth basis of valuation

The following table presents the changes in recurring fair value measurements of Available for sale unlisted equity shares categorised as Level 3

	Group	HIE
	£000	£000
Opening Balance	613	975
Transfers into Level 3	-	-
Transfers out of Level 3	-	-
Additions	-	-
Disposals	(16)	-
Fair Value Adjustment	(465)	(464)
Total Gains or Losses for the period:	-	-
Included in other income and expenses	-	-
Included in other comprehensive income	-	-
Closing Balance	132	511

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Description	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Equity	£15k	Net Asset Value (a)	n/a	n/a

(a) The entity has determined that the reported net assets value represents fair value at the end

There are no unobservable inputs available to provide a sensitivity analysis of the Fair Value Measurement.

**Estimation of fair values**

The following methods and assumptions were used to estimate fair values: -

Financial assets available for sale	The fair value is based on net asset value, where this exists, or the last known purchase price
Assets held to maturity	The fair value is based on amortised cost using the effective interest rate method, less any provision for impairment
Loans and other receivables	The fair value is based on amortised cost using the effective interest rate method, less any provision for impairment
Trade and other receivables	The fair value is deemed to be the same as book value, less any provision for impairment
Cash and cash equivalents	The fair value is deemed to be the same as book value
Trade and other payables	The fair value is deemed to be the same as book value
Other borrowings	The fair value is deemed to be equal to the net present value of future lease payments

## Accounts Direction by the Scottish Ministers

1. The Scottish Ministers, in pursuance of Section 30(1) of the Enterprise and New Towns (Scotland) Act 1990, hereby give the following direction.
2. The statement of accounts for the financial year ended 31 March 2010, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FRM) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the Income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year. Additional disclosure requirements are set out in Schedule 1 attached.
4. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 14 December 2005 is hereby revoked.

Signed by the authority of the Scottish Ministers



Head of Enterprise Policy Delivery Division  
10 June 2010

## **SCHEDULE 1**

### **ADDITIONAL DISCLOSURE REQUIREMENTS**

1. The notes to the accounts shall include a schedule of all investments showing:
  - 1.1. In respect of companies in which Highlands & Islands Enterprise holds 20% or more of the voting rights and where the total investment (including loans) is in excess of £100,000:
    - Name of company
    - Nature of its business
    - Percentage of voting rights held
    - Amount invested in shares (distinguishing between ordinary and preference shares)
    - Amount of loan given to each company
    - Any other commitments in respect of each company
  - 1.2. In respect of companies in which Highlands & Islands Enterprise holds less than 20% of the voting rights but where the total investment (including loans) is in excess of £1,000,000:
    - Name of company
    - Nature of its business
    - Percentage of voting rights held
    - Amount invested in shares (distinguishing between ordinary and preference shares)
    - Amount of loan given to each company
    - Any other commitments in respect of each company
  - 1.3. In respect of all other investments by Highlands & Islands Enterprise:
    - Total number of companies involved
    - Total amount invested
    - Total amount of loans given
    - Total amount of any other commitments